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Audit

IAS Plus.

Published for our clients and staff throughout the world

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Closing out 2007

Over the past 2 years or so, the International Accounting Standards Board (IASB) has issued a number of new and revised Standards and Interpretations that are effective for December 2007 year ends and beyond. Some of these are quite significant – others address matters of detail. The objective of this newsletter is to gather together outlines of all of those Standards and Interpretations, so as to provide readers with a convenient *aide memoire* when considering their implementation.

Deloitte's IFRS model financial statements for December 2007 year ends and our presentation and disclosure checklist, which are available on www.iasplus.com, have been updated to reflect all of the requirements effective for December 2007 year ends – and most of those effective for later periods.

This newsletter by necessity includes a very high level overview of the new and revised Standards and Interpretations – but you will see that, where applicable, we have provided references to past newsletters dealing with the specific Standard or Interpretation in more detail. These past newsletters are also available on www.iasplus.com. As always, entities will need to refer to the Standards and Interpretations themselves to identify all of the changes that will affect their particular circumstances.

Entities are generally permitted to adopt new and revised Standards and Interpretations in advance of their effective dates (refer to individual Standards and Interpretations for details). Where a Standard or Interpretation is adopted in advance of its effective date, disclosure of that fact is generally required.

Even where there is no intention to implement a Standard or Interpretation in advance of its effective date, entities need to be aware of new Standards and Interpretations as they are issued, in order to comply with the requirement included in IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors** to disclose in their financial statements the potential impact of Standards and Interpretations in issue but not yet effective.

Finally, a word of caution regarding early adoption of Standards and Interpretations, and the need to have regard to local endorsement or other legal processes. For example, in the European Union (EU), the following documents have not yet been endorsed: IAS 1 (Revised 2007) **Presentation of Financial Statements**, IAS 23 (Revised 2007) **Borrowing Costs**, and IFRICs 12 to 14. For further information, refer to the EU Endorsement Status Report on www.efrag.org.

New and revised Standards and Interpretations

The following is a comprehensive list of new and revised Standards and Interpretations in issue at December 2007, and effective for 31 December year ends and later periods. All of the newsletters cited may be found at **www.iasplus.com/iasplus/iasplus.htm**

Effective for 31 December 2007 year ends

New Standard		Effective for annual periods beginning on or after	IAS Plus newsletter issued
IFRS 7	Financial Instruments: Disclosures	1 January 2007	October 2005
Amendments to Standards			
Amendment to IAS 1	Capital Disclosures	1 January 2007	October 2005
Revised Guidance on Implementing IFRS 4, Insurance Contracts		1 January 2007	n/a
New Interpretations			
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006	December 2005
IFRIC 8	Scope of IFRS 2	1 May 2006	January 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006	March 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006	August 2006

Available for early adoption for 31 December 2007 year ends

New Standards		Effective for annual periods beginning on or after	IAS Plus newsletter issued
IFRS 8	Operating Segments	1 January 2009	December 2006
Amendments to Standards			
IAS 23	Borrowing Costs	1 January 2009	April 2007
IAS 1	Presentation of Financial Statements	1 January 2009	September 2007
New Interpretations			
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007	December 2006
IFRIC 12	Service Concession Arrangements	1 January 2008	December 2006
IFRIC 13	Customer Loyalty Programmes	1 July 2008	June 2007
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	July 2007

Effective for 31 December 2007 year ends

IFRS 7 – Financial Instruments: Disclosures — Effective 1 January 2007

IFRS 7:

- adds new disclosures about financial instruments to those previously required by IAS 32 Financial Instruments: Disclosure and Presentation;
- replaces the disclosure requirements previously imposed on financial institutions by IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions; and
- puts all of those financial instrument disclosure requirements together in a new combined Standard.

IFRS 7 deals with the disclosure requirements for all risks arising from financial instruments (with limited exemptions), and applies to any entity that holds or issues financial instruments. The level of disclosure required depends on the extent of the entity's use of financial instruments and its exposure to financial risk. The Standard retains many of the disclosure requirements previously included in IAS 32 and IAS 30. However, there have been some editorial changes to those previous requirements as well as some additional disclosure requirements added. The overriding objective is that preparers should provide disclosures that enhance a user's understanding of the entity's exposures to financial risks and how the entity manages those risks. To this end, IFRS 7 requires an entity to disclose:

- information on the significance of financial instruments to the entity's financial position and performance;
- the nature and extent of risk exposures arising from financial instruments (quantitative disclosures); and
- the approach taken in managing those risks (qualitative disclosures).

Amendment to IAS 1 – Capital Disclosures — Effective 1 January 2007

IAS 1 Presentation of Financial Statements was amended in conjunction with the release of IFRS 7. The amendment imposes additional requirements for the disclosure of:

- the entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any externally-imposed capital requirements; and
- if it has not complied, the consequences of such non-compliance.

Revised Guidance on Implementing IFRS 4, Insurance Contracts — Effective 1 January 2007

The revised guidance applies only from when an entity has adopted IFRS 7. IFRS 7 amends and supersedes the disclosures about risk that were previously required by IAS 32. These changes necessitated consequential amendments to IFRS 4, which previously required disclosure of the information about interest rate risk and credit risk that IAS 32 would require if the insurance contracts were within the scope of IAS 32.

IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies — Effective 1 March 2006

IAS 29 Financial Reporting in Hyperinflationary Economies requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. Comparative figures for prior period(s) should be restated into the same current measuring unit. IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency, including specifically the restatement of deferred tax in the opening balance sheet.

IFRIC 8 – Scope of IFRS 2 — Effective 1 May 2006

IFRIC 8 clarifies the following:

- IFRS 2 **Share-based Payment** applies to share-based payment transactions in which the entity cannot identify specifically some or all of the goods or services received;
- in the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case IFRS 2 applies;
- if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or the liability incurred, typically this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received;
- the entity should measure the identifiable goods or services received (or to be received) in accordance with IFRS 2;
- the entity should measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received);
- the unidentifiable goods or services received (or to be received) should be measured at grant date; and
- for cash-settled transactions in which unidentifiable goods or services are received, the liability should be remeasured at each subsequent reporting date in order to be consistent with IFRS 2.

IFRIC 9 – Reassessment of Embedded Derivatives — Effective 1 June 2006

IFRIC 9 addresses two questions:

- is an entity required to reconsider its assessment as to whether an embedded derivative needs to be separated after the initial recognition of the hybrid contract?
- should a first-time adopter of IFRSs make its assessment as to whether an embedded derivative needs to be separated when the entity first became a party to the hybrid contract, or when the entity adopts IFRSs for the first time?

The International Financial Reporting Interpretations Committee (IFRIC) concluded that an entity generally should not reassess its conclusion as to whether an embedded derivative needs to be separated from the hybrid contract after it is initially recognised. Similarly, a first-time adopter of IFRSs should make its assessment on the basis of conditions existing when the entity became party to the hybrid contract, not when it adopts IFRSs. An entity should only revisit its assessment if the terms of the contract change and the expected future cash flows of the embedded derivative, the host contract, or both, have changed significantly relative to the previously expected cash flows on the contract.

IFRIC 10 – Interim Financial Reporting and Impairment — Effective 1 November 2006

The Interpretation addresses the interaction between the requirements of IAS 34 **Interim Financial Reporting** and the recognition of impairment losses on goodwill under IAS 36 **Impairment of Assets** and certain financial assets under IAS 39 **Financial Instruments: Recognition and Measurement.** The Interpretation concludes that where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.

Available for early adoption for 31 December 2007 year ends

Note that where Standards or Interpretations are adopted in advance of their effective dates, disclosure of that fact is generally required. Where the Standards and Interpretations discussed below are not adopted for December 2007 year ends, preparers will need to have regard to the requirements of IAS 8.30, i.e. the requirement to consider and disclose the potential impact of Standards and Interpretations in issue but not yet effective.

Preparers will also need to have regard to local endorsement or other legal processes (see introduction to this newsletter).

IFRS 8 – Operating Segments — Effective 1 January 2009

IFRS 8 supersedes IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Upon adoption of IFRS 8, the identification of an entity's segments may or may not change, depending on how the entity has applied IAS 14 in the past. IAS 14 required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. If under IAS 14 an entity identified its primary segments on the basis of the reports provided to the person whom IFRS 8 regards as the chief operating decision maker, those segments might become the 'operating segments' for the purposes of IFRS 8.

IFRS 8 requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance. In contrast to IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities. Nor does it require segment information to be prepared in conformity with the accounting policies adopted for the entity's financial statements. As a consequence, entities will have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

Under IFRS 8, additional entity-wide disclosures are prescribed that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.

Analyses of revenues and certain non-current assets by geographical area are required – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

IFRS 8 also introduces a requirement to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity's revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed.

IAS 23 (Revised) Borrowing Costs — Effective 1 January 2009

The amendments to IAS 23 eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

The amendments to IAS 23 are generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised Standard. Therefore, if an entity has previously followed an accounting policy of immediately recognising all borrowing costs as an expense:

- it is not required to retrospectively restate its financial statements for borrowing costs incurred on qualifying assets before the effective date of the Standard;
- nor is it required to apply the capitalisation policy to borrowing costs incurred subsequent to the effective date on projects that had commenced (i.e. that had met IAS 23's criteria for commencement of capitalisation) before the effective date.

IAS 1 (Revised) Presentation of Financial Statements   Effective 1 January 2009

Many textual changes have been made in IAS 1 (Revised), including changes to the titles of individual financial statements (e.g. a 'balance sheet' will in future be referred to as a 'statement of financial position'). The majority of the changes made are not substantive. The most significant impacts of the amendments to the Standard are as follows:

- a new requirement has been introduced to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
- all items of income and expense (including those accounted for directly in equity) must in future be presented either:
  - in a single statement (a 'statement of comprehensive income'); or
  - in two statements (a separate 'income statement' and 'statement of comprehensive income');
- entities are no longer permitted to present items of 'other comprehensive income' (e.g. gains and losses on revaluation of property, plant and equipment) separately in the statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity;
- entities are no longer permitted to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement; and
- new detailed requirements have been introduced regarding the presentation of items of other comprehensive income.

IFRIC 11 – IFRS 2 - Group and Treasury Share Transactions   Effective 1 March 2007

IFRIC 11 clarifies the application of IFRS 2 **Share-based Payment** to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

The IFRIC concluded that when an entity receives services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. This is regardless of whether:

- the entity chooses or is required to purchase equity instruments to satisfy its obligation;
- the entity or its shareholder(s) grants the right; or
- the transaction is settled by the entity or by its shareholder(s).

Where a parent grants rights to its equity instruments to employees of its subsidiary, assuming the transaction is accounted for as an equity-settled share-based payment transaction in the consolidated financial statements, the subsidiary should measure the services received using the requirements for equity-settled transactions in IFRS 2, and should recognise a corresponding increase in equity as a contribution from the parent.

Where a subsidiary grants rights to equity instruments of its parent to its employees:

- the subsidiary has incurred a liability to transfer cash or other assets of the entity to its employees (being a liability to transfer equity instruments of its parent); and
- the subsidiary accounts for the transaction as a cash-settled share-based payment transaction.

IFRIC 12 – Service Concession Arrangements — Effective 1 January 2008

IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads.
The Interpretation does not address the accounting for the government (grantor) side of such arrangements. The Interpretation states that for arrangements falling within its scope (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator will recognise:

- a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
- an intangible asset (where the operator's future cash flows are not fixed – e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

IFRIC 13 – Customer Loyalty Programmes — Effective 1 July 2008

This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction. Common examples are airline and hotel loyalty schemes and credit card reward schemes. IFRIC 13 addresses the accounting by the entity that grants the award credits. It applies to customer loyalty award credits that:

- entities grant to their customers as part of a sales transaction under IAS 18 *Revenue* (a sale of goods, rendering of services or use by the customer of entity assets); and
- subject to meeting any further qualifying conditions, the customers can redeem for free or discounted goods or services in the future.

IFRIC 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and to allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them. For arrangements falling within its scope, IFRIC 13 explicitly prohibits the alternative treatment of recognising the full consideration received as revenue, with a separate liability for the cost of supplying the awards.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction — Effective 1 January 2008

IFRIC 14 addresses three issues:

- when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of IAS 19 *Employee Benefits;*
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

The Interpretation concludes that an economic benefit, in the form of a refund or reduction in future contributions, is 'available' if the entity has an unconditional right to realise the benefit at some point during the life of the plan or when the plan is settled, even if the benefit is not realisable immediately at the balance sheet date. The economic benefit available in the form of refunds or reductions should be measured, in accordance with the terms of the plan and statutory requirements, at the maximum amount available.

Should a minimum funding requirement exist, IFRIC 14 distinguishes between contributions that are required to cover:

a) an existing shortfall for past service on the minimum funding basis; and

b) the future accrual of benefits.

Under (a), the minimum contribution requirement relates to services already received by an entity. To the extent that the contributions payable will not be available for a refund or reduction in future contributions, an entity recognises a liability when the obligation to provide such contributions arises. The liability recognised will either reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of IAS 19 when the contributions are paid.

Under (b), an entity should determine the economic benefit available as a reduction in future contributions as the present value of the estimated future service cost in each year less the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

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