



International Accounting Standards Board®

Press Release

For Immediate Release

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IASB'S STANDING INTERPRETATIONS COMMITTEE (SIC) ISSUES SIX NEW INTERPRETATIONS

The Standing Interpretations Committee (SIC) today published six new Interpretations to clarify accounting issues under International Accounting Standards. The new Interpretations are:

- **SIC-27**: *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- **SIC-28**: *Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments*
- **SIC-29**: *Disclosure – Service Concession Arrangements*
- **SIC-30**: *Reporting Currency – Translation from Measurement Currency to Presentation Currency*
- **SIC-31**: *Revenue – Barter Transactions Involving Advertising Services, and*
- **SIC-33**: *Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests*

The Interpretations were approved by the IASB at its last meeting in December. All Interpretations issued by SIC are part of the binding International Accounting Standards literature.

SIC-27, 29, and 31 become effective on 31 December 2001. SIC-30 and 33 become effective for annual financial periods beginning on or after 1 January 2002. SIC-28 becomes effective for acquisitions given initial accounting recognition on or after 31 December 2001.

Commenting on the new Interpretations, Paul Cherry, Chairman of the Standing Interpretations Committee, said: “We have had SIC-27 on our agenda for some time, and the document has gone through a number of iterations. We consider the final document to be of wider application and

therefore more useful than it was at earlier stages. It also highlights the significance of determining the substance of a transaction, which is a very important element of IAS literature.”

Paul Cherry continued: “The Interpretation dealing with the date of exchange and the fair value of equity instruments issued in a business combination clarifies the existing requirements of IAS 22 and thereby settles a significant practice issue. When an acquisition is achieved in a single step, the fair value of equity instruments issued is determined at the date when the acquirer obtains control over the acquiree. Further, the published price of a quoted equity instrument is the best evidence of its fair value, and so that price is used when measuring fair value – no adjustments are made for block premiums or discounts to the published price.”

In closing, Paul Cherry said: “The disclosures required by SIC-29 will significantly improve the transparency of financial statements of enterprises that are a party to a service concession arrangement. SIC-30 resolves the method of translating from a measurement currency determined under SIC-19 to a presentation currency. SIC-33 clarifies that share call options and other similar instruments that have the potential to give an enterprise voting power, can affect an assessment of control and significant influence.”

As reported in IASB Update when approving SIC-28, the Board noted that it is considering in phase one of its business combinations project the date on which equity instruments issued as consideration should be measured. Any possible change to the existing requirements as result of this project would only be effective after the Board has completed its due process. Also, during the Board’s discussion of SIC-30, it noted that the Interpretation is consistent with its tentative decision in November to require translation of financial statements into a presentation currency using the method set out in IAS 21, paragraph 30.

IASB Chairman, Sir David Tweedie, concluded by saying: “The Board recognises and appreciates the hard work of our outstanding SIC members, and the high quality of their Interpretations. We are grateful to the members enduring through this recent period of transition, while the Committee is being reconstituted. We also thank the members for their willingness to assist with the reconstruction and to give the Board advice on various issues.”

Printed copies of the Interpretations will be mailed to subscribers to IASB's "SIC Interpretations Subscription Package" and to subscribers to the IASB "Comprehensive Package" services next week. The SIC publications include a loose-leaf binder containing Draft and Final SIC Interpretations, the SIC Operating Procedures, a member list and other additional information. Detailed information on subscription services and on ordering other IASB publications can be obtained from IASB's publication department, 7th Floor, 166 Fleet Street, London EC4A 2DY, United Kingdom. Telephone: +44 (020) 7427-5927. Fax: +44 (020) 7353-0562. E-mail: publications@iasb.org.uk Internet: <http://www.iasb.org.uk>

For Press Enquiries:

Jim Saloman, Technical Director, IASB, Telephone: +44 (020) 7246-6460; e-mail: jsaloman@iasb.org.uk

Frank Palmer, Project Manager, IASB, Telephone: +44 (020) 7246-6455; e-mail: fpalmer@iasb.org.uk

Paul Cherry, SIC Chairman, Telephone: +1 (416) 204-3456; e-mail: paul.cherry@cica.ca

NOTE TO EDITORS:

■ SIC-27: *Evaluating the Substance of Transactions in the Legal Form of a Lease*

The Interpretation addresses a number of issues when an arrangement between an Enterprise and an Investor involves the legal form of a lease. It addresses how to determine whether a series of transactions is linked and should be accounted for as one transaction. The SIC agreed that a series of transactions that involve the legal form of a lease is linked and should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.

The Interpretation also addresses whether an arrangement meets the definition of a lease under IAS 17. The SIC agreed that the accounting should reflect the substance of the arrangement, and that all aspects of an arrangement should be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect. In this respect, it agreed to a list of indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under IAS 17.

If an arrangement does not meet the definition of a lease, the Interpretation continues by addressing whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the Enterprise; how the Enterprise should account for other obligations resulting from the arrangement; and how the Enterprise should account for a fee it might receive from an Investor. The Committee agreed to a list of indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and should not be recognised by the Enterprise. It agreed that other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, should be accounted for under IAS 37 or IAS 39, depending on the terms. Further, it agreed that the criteria in IAS 18.20 should be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an Enterprise might receive.

■ SIC-28: *Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments*

The Interpretation addresses when the “date of exchange” occurs where shares are issued as purchase consideration in an acquisition. The SIC agreed that when an acquisition is achieved in one exchange transaction (i.e., not in stages), the “date of exchange” is the date of acquisition; that is, the date when the acquirer obtains control over the net assets and operations of the acquiree. When an acquisition is achieved in stages (e.g., successive share purchases), the Committee agreed that the fair value of the equity instruments issued as purchase consideration at each stage should be determined at the date that each individual investment is recognised in the financial statements of the acquirer.

The Interpretation also addresses when it is appropriate to consider other evidence and valuation methods in addition to a published price at the date of exchange of a quoted equity instrument. The Committee agreed that the published price at the date of exchange provides the best evidence of the instrument’s fair value and should be used, except in rare circumstances. Other evidence and valuation methods should also be considered only in the rare circumstance when it can be demonstrated that the published price at that date is an unreliable indicator, and the other evidence and valuation methods provide a more reliable

measure of fair value. The published price at the date of exchange is an unreliable indicator only when it has been affected by an undue price fluctuation or a narrowness of the market.

■ **SIC-29: Disclosure – Service Concession Arrangements**

The Interpretation addresses what information should be disclosed in the notes to the financial statements of a Concession Operator and a Concession Provider when the two parties are joined by a service concession arrangement. A service concession arrangement exists when an enterprise (the Concession Operator) agrees with another enterprise (the Concession Provider) to provide services that give the public access to major economic and social facilities. Examples of service concession arrangements involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks. Examples of arrangements that are not service concession arrangements include an enterprise outsourcing the operation of its internal services (e.g., employee cafeteria, building maintenance, and accounting or information technology functions). The SIC agreed that the following should be disclosed in each period:

- (a) a description of the arrangement;
- (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g., the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
- (c) the nature and extent (e.g., quantity, time period or amount as appropriate) of:
 - (i) rights to use specified assets;
 - (ii) obligations to provide or rights to expect provision of services;
 - (iii) obligations to acquire or build items of property, plant and equipment;
 - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
 - (v) renewal and termination options; and
 - (vi) other rights and obligations (e.g., major overhauls); and
- (d) changes in the arrangement occurring during the period.

■ **SIC-30: Reporting Currency – Translation from Measurement Currency to Presentation Currency**

This Interpretation addresses how an enterprise translates items in its financial statements from a measurement currency to a presentation currency. The SIC agreed that when the measurement currency is not the currency of a hyperinflationary economy, the requirements of SIC-19.9 should be applied as follows:

- (a) assets and liabilities for all balance sheets presented (i.e., including comparatives) should be translated at the closing rate existing at the date of each balance sheet presented;

- (b) income and expense items for all periods presented should be translated at the exchange rates existing at the dates of the transactions;
- (c) equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss should be translated at the closing rate existing at the date of each balance sheet presented; and
- (d) all exchange differences resulting from translation should be recognised directly in equity.

When the measurement currency is the currency of a hyperinflationary economy, the Committee agreed that the requirements of SIC-19.9 should be applied as follows:

- (a) assets, liabilities and equity items for all balance sheets presented (i.e., including comparatives) should be translated at the closing rate existing at the date of the most recent balance sheet presented; and
- (b) income and expense items for all periods presented should be translated at the closing rate existing at the end of the most recent period presented.

The Interpretation also addresses the information that should be disclosed when additional information not required by International Accounting Standards is displayed in financial statements and in a currency, other than the currency used in presenting the financial statements, as a convenience to certain users. The SIC agreed that an enterprise should,

- (a) clearly identify the information as supplementary information to distinguish it from the information required by International Accounting Standards and translated in accordance with this Interpretation,
- (b) disclose the measurement currency used to prepare the financial statements and the method of translation used to determine the supplementary information displayed,
- (c) disclose the fact that the measurement currency reflects the economic substance of the underlying events and circumstances of the enterprise and that the supplementary information is displayed in another currency for convenience purposes only, and
- (d) disclose the currency in which the supplementary information is displayed.

■ **SIC-31: Revenue – Barter Transactions Involving Advertising Services**

The Interpretation address the circumstances when a Seller can reliably measure revenue at the fair value of advertising services received or provided in a barter transaction. The SIC agreed that revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:

- (a) involve advertising similar to the advertising in the barter transaction;
- (b) occur frequently;

- (c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
 - (d) involve cash and/or another form of consideration (e.g., marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
 - (e) do not involve the same counterparty as in the barter transaction.
- SIC-33: *Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests*

An enterprise may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the enterprise voting power or reduce another party's voting power over the financial and operating policies of another enterprise (potential voting rights). The Interpretation addresses whether the existence and effect of potential voting rights should be considered, in addition to the factors described in IAS 27.12 and IAS 28.4-.5 when assessing whether an enterprise controls or significantly influences another enterprise according to IAS 27 and IAS 28 respectively. The SIC agreed that the existence and effect of potential voting rights that are presently (i.e., currently) exercisable or presently convertible should be considered, in addition to the factors described in IAS 27.12 and IAS 28.4-.5.

The Interpretation also addresses whether any other facts and circumstances related to potential voting rights should be assessed. The Committee agreed that all facts and circumstances that affect potential voting rights should be examined, except the intention of management and the financial capability to exercise or convert.

Further, the Interpretation addresses whether the proportion allocated to the parent and minority interests in preparing consolidated financial statements, and the proportion allocated to an investor that accounts for its investment in an associate using the equity method, should be determined based on present ownership interests or ownership interests that would be held if the potential voting rights were exercised or converted. The SIC agreed that the proportion allocated should be determined based solely on present ownership interests. An enterprise may, in substance, have a present ownership interest when for example, it sells and simultaneously agrees to repurchase, but does not lose control of, access to economic benefits associated with an ownership interest. In this circumstance, Committee agreed the proportion allocated should be determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, presently give access to the economic benefits associated with an ownership interest.

In responding to respondents' comments, the Committee agreed to address the appropriate accounting treatment for potential voting rights until they are exercised or expire. The SIC agreed that when applying the consolidation and the equity method of accounting, instruments containing potential voting rights should be accounted for as part of the investment in a subsidiary and the investment in an associate respectively only when the proportion of ownership interests is allocated by taking into account the eventual exercise of those potential voting rights. In all other circumstances, instruments containing potential voting rights should be accounted for in accordance with IAS 39.