



International Accounting Standards Board®

Press Release

For Immediate Release

9 July 2001

IASB'S STANDING INTERPRETATIONS COMMITTEE (SIC) ISSUES FIVE DRAFT INTERPRETATIONS

The Standing Interpretations Committee (SIC) today published five Draft Interpretations to clarify the approach to certain issues under International Accounting Standards. The Draft Interpretations are available both in hard copy format and also on IASB's Web Site <http://www.iasb.org.uk>. Comments should be submitted in writing by **10 September 2001**. The Draft Interpretations are:

- SIC – D28: *Business Combinations – Measurement of Shares Issued as Purchase Consideration,*
- SIC – D29: *Disclosure – Service Concession Arrangements,*
- SIC – D30: *Reporting Currency – Translation from Measurement Currency to Presentation Currency,*
- SIC – D31: *Revenue – Barter Transactions Involving Advertising Services, and*
- SIC – D32: *Intangible Assets – Web Site Costs*

Commenting on the new Draft Interpretations, Paul Cherry, Chairman of the Standing Interpretations Committee, said: “The release of these Draft Interpretations temporarily concludes our discussion of these items. It is now time to listen to our constituents. The consensus reached in SIC-D28 is particularly important, because the date of measuring shares issued in an acquisition can have a dramatic effect on the cost of the acquisition. The Draft Interpretation clarifies that in a single step acquisition the shares issued should be measured at the date when the acquirer obtains control over the operations of the acquiree.”

Paul Cherry continued: “Disclosure of the terms of service concession arrangements is necessary to gain a full understanding of their effect on an enterprise's financial position, financial performance and cash flows. These arrangements often involve major infrastructure assets and the services provided may make up the entire operation of an enterprise. As regards the Draft Interpretation on reporting currency, this follows on from SIC-19 and specifies the method for translating financial statements from a measurement currency to a presentation currency. The

consensus relating to barter transactions imposes a number of conditions that are necessary before revenue in certain barter transactions involving advertising can be considered reliably measured. While the scope of the issue has not been explicitly expanded to cover all barter transactions, the consensus should serve as useful guidance in other circumstances. We have also issued a Draft Interpretation to assist enterprises in accounting for the costs to develop their own web site. The Appendix provides useful examples of the types of expenditures incurred in each of the stages of development.”

Printed copies of Draft Interpretations SIC-D28, SIC-D29, SIC-D30, SIC-D31, and SIC-D32 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, 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>

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NOTE TO EDITORS:

■ SIC – D28: *Business Combinations – Measurement of Shares Issued as Purchase Consideration*

The Draft 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, the “date of exchange” should be 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 fair value of the shares issued as purchase consideration should be determined at the date that each exchange is recognised.

The Draft Interpretation also addresses when it is appropriate to use a price other than a published price at the date of exchange when determining the fair value of an acquirer’s shares that are quoted in an active market. The SIC agreed that the published price of a share in an active market at the date of exchange should be considered the best evidence of the share’s fair value. Another price should be used only if it can be demonstrated that a price fluctuation is undue, and the other price provides a more reliable measure of the share’s fair value.

■ SIC – D29: *Disclosure – Service Concession Arrangements*

The Draft 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 are normally considered public services. 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 operations of its internal services (e.g., employee cafeteria 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, contractual 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) transferred 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 options;

- (vi) other rights and obligations (e.g., major overhauls); and
- (d) changes in the arrangement occurring during the period.

■ SIC – D30: Reporting Currency – Translation from Measurement Currency to Presentation Currency

This Draft Interpretation addresses how an enterprise should translate its financial statements from a currency used for measuring items in its financial statements (measurement currency) to another currency for presentation purposes (presentation currency). SIC-19, *Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29*, requires that the translation method used not lead to reporting in a manner that is inconsistent with the measurement of items in the financial statements. The SIC agreed that the requirements of SIC-19.9 should be applied as follows:

- (a) assets and liabilities should be translated at the closing rate existing at the date of each balance sheet presented, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case assets and liabilities should be translated at the closing rate existing at the date of the most recent balance sheet presented;
- (b) income and expense items should be translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case 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; and
- (c) all resulting exchange differences should be classified as equity.

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

- (a) clearly identify the information as supplementary information to distinguish it from the information required by International Accounting Standards; and
- (b) disclose the method of translation used as a basis for presenting the information.

■ SIC – D31: Revenue – Barter Transactions Involving Advertising Services

The Draft Interpretation address how revenue from a barter transaction involving advertising should be measured, and the circumstances when the fair value of advertising services received or provided in a barter transaction be reliably measured. The SIC agreed that:

- (a) an enterprise providing advertising should measure revenue from a barter transaction based on the fair value of the advertising services it receives from its customer unless it is impracticable to measure reliably, in which case the enterprise should use the fair value of the advertising services it provides to the customer. If the fair value of the advertising services of both enterprises is not reliably measurable, the Seller

should recognise revenue only to the extent of the carrying amount of assets given up.

- (b) the fair value of advertising services received or provided in a barter transaction can be reliably measured only by reference to non-barter transactions that:
 - (i) involve advertising similar to the advertising in the barter transaction;
 - (ii) occur frequently;
 - (iii) are expected to continue occurring after the barter transaction;
 - (iv) represent a predominant source of revenue from advertising similar to the advertising in the barter transaction;
 - (v) 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
 - (vi) do not involve the same counterparty as in the barter transaction.

■ SIC – D32: Intangible Assets – Web Site Costs

The Draft Interpretation addresses the accounting for an internal expenditure on the development, enhancement and maintenance of a web site by an enterprise for its own use. Specifically, it addresses whether the web site is an internally generated intangible asset that is subject to the requirements of IAS 38; and whether the purpose(s) of the web site might impair the enterprise's ability to demonstrate how the web site will generate probable future economic benefits under IAS 38.45(d).

The SIC agreed that a web site developed by an enterprise for its own use is an internally generated intangible asset that is subject to the requirements of IAS 38. It also agreed that:

- (a) the Planning stage is similar in nature to the research phase in IAS 38.42-.44, and therefore an expenditure incurred in this stage should be recognised as an expense when it is incurred;
- (b) the Application and Infrastructure Development and Graphical Design and Content Development stages are similar in nature to the development phase in IAS 38.45-.52. Therefore, expenditures incurred in these stages should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements for recognition and initial measurement of an intangible asset, an enterprise can demonstrate those items described in IAS 38.45. In addition,
 - i) an enterprise may be able to demonstrate how its web site will generate probable future economic benefits under IAS 38.45(d) by using the principles in IAS 36, Impairment of Assets. This includes situations where the web site is developed solely or primarily for promoting and advertising an enterprise's own products and services; and

- ii) an enterprise may incur an expenditure to enable use of content, which had been purchased or created for another purpose, on its web site (e.g., acquiring a license to reproduce information) or may purchase or create content specifically for use on its web site prior to the web site becoming available for use. In such circumstances, an enterprise should determine whether a separate asset is identifiable with respect to such content (e.g., copyrights and licenses), and if a separate asset is not identifiable, then the expenditure should be included in the cost of developing the web site when the expenditure meets the conditions in IAS 38.54.
- (c) the Operating stage commences once the web site is available for use, and therefore an expenditure to maintain or enhance the web site after development has been completed should be recognised as an expense when it is incurred unless it meets the criteria in IAS 38.60.