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Audit

IFRSs in your pocket 2007

An IAS Plus guide

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Deloitte's **www.iasplus.com** website provides comprehensive information about international financial reporting in general and IASB activities in particular. Unique features include:

- daily news about financial reporting globally.
- summaries of all Standards, Interpretations and proposals.
- many IFRS-related publications available for download.
- model IFRS financial statements and disclosure checklists.
- an electronic library of several hundred IFRS resources.
- all Deloitte Touche Tohmatsu comment letters to the IASB.
- links to nearly 200 IFRS-related websites.
- e-learning modules for each IAS and IFRS – at no charge.
- complete history of adoption of IFRSs in Europe and information about adoptions of IFRSs elsewhere around the world.
- updates on developments in national accounting standards.

Foreword

It is a difficult time to be a member of the IASB. The Board must at times feel that they are attempting to construct a house on shifting sands. The solid ground on which they have previously anchored their efforts is gradually eroding – as the basic principles of the Framework are redebated. As keen observers, we do not underestimate their predicament.

But we do believe that predicament is aggravated by a degree of disarray in the management of the current agenda. We consider that the ultimate objective for the Board should be clear – the development of a cohesive body of principle-based Standards. We are concerned, however, that a number of the proposals emerging from the Board's recent deliberations do not seem to achieve real progress toward that objective. In fact, some of those proposals would undermine Standards (such as IAS 1 and IAS 37) that are operating satisfactorily within the current accounting model and environment and would, in our opinion, lead to inferior Standards. The underlying cause for this situation, we believe, is the pressure imposed by the Board's short-term commitments under the Roadmap for Convergence with US GAAP and the related IASB/FASB Memorandum of Understanding.

We at Deloitte are committed supporters of the convergence efforts of the world's national accounting standard setters, and the IASB and FASB in particular. While we support this process, we have significant reservations about the IASB's approach to its 'short-term convergence' agenda. Convergence should always be to the highest-quality solution – and the Board must, in all cases, demonstrate (not merely assert) that there is conclusive evidence that the approach chosen is the highest quality solution. A recent example of the Board's failure to meet this obligation is the elimination of the option to expense all borrowing costs. There had been practically no conceptual debate, and a solid rejection of the proposals by respondents to the Exposure Draft – and yet the Board has proceeded with its proposals in order to meet its Roadmap commitments. Clearly, the MoU is a highly influential planning document – one that received no public debate.

In moving forward, we believe that the Board's highest priority should be the progression of the new Conceptual Framework. We acknowledge that there will be projects that cannot wait until that Framework is finalised, and that there will be a need for interim 'fixes' in some areas. But the Board needs to approach these with care and avoid undermining Standards that, while they might not be perfect, work well enough until those building blocks are in place.

Ken Wild
Global IFRS Leader
Deloitte Touche Tohmatsu

Our IAS Plus website

Deloitte's www.iasplus.com website provides, without charge, comprehensive information about international financial reporting in general and IASB activities in particular. Features include:

- daily news about financial reporting globally;
- summaries of all Standards, Interpretations and proposals;
- many IFRS-related publications available for download;
- model IFRS financial statements and checklists;
- an electronic library of several hundred IFRS resources;
- all Deloitte Touche Tohmatsu comment letters to the IASB;
- links to several hundred international accounting websites;
- e-learning modules for each IAS and IFRS – at no charge;
- complete history of adoption of IFRSs in Europe;
- updates on national accounting standards development.

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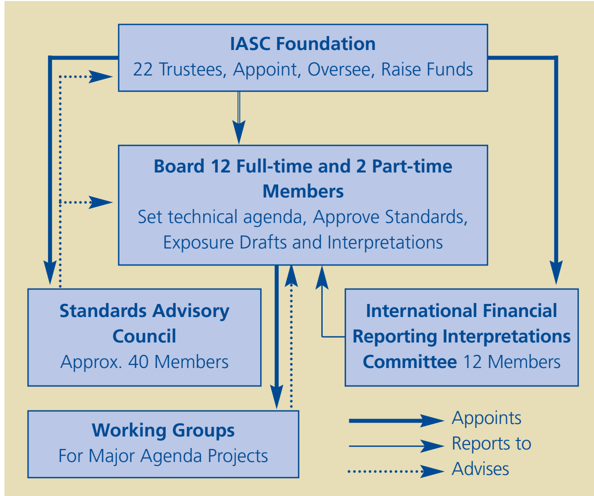
Abbreviations

ARC	Accounting Regulatory Committee of the EC
CESR	Committee of European Securities Regulators
DP	Discussion Paper
EC	European Commission
ED	Exposure Draft
EEA	European Economic Area (EU 27 + 3 countries)
EFRAG	European Financial Reporting Advisory Group
EITF	Emerging Issues Task Force (of FASB)
EU	European Union (27 countries)
FASB	Financial Accounting Standards Board (US)
FEE	European Accounting Federation
GAAP	Generally Accepted Accounting Principle(s)
IAS(s)	International Accounting Standard(s)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	IASC Foundation (parent body of the IASB)
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee of the IASB, and interpretations issued by that committee
IFRS(s)	International Financial Reporting Standard(s)
IOSCO	International Organization of Securities Commissions
SAC	Standards Advisory Council (advisory to the IASB)
SEC	Securities and Exchange Commission (US)
SIC	Standing Interpretations Committee of the IASC, and interpretations issued by that committee
SME(s)	Small and medium-sized entity(ies)

IASB structure



IASC Foundation

Geographical balance: six from North America, six from Europe; six from the Asia/Oceania region; four from any area (subject to establishing overall geographical balance).

Backgrounds of trustees: constitution requires an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest.

International Accounting Standards Board

Geographical balance: not specified, except that the Trustees should ensure that the Board is not dominated by any particular constituency or geographical interest.

Backgrounds of Board members: an appropriate mix of recent practical experience among auditors, preparers, users and academics; including at least one with previous experience in each of those fields.

Members of the IASB

Sir David Tweedie, Chairman Sir David became the first IASB Chairman on 1 January 2001, having served from 1990-2000 as the first full-time Chairman of the UK Accounting Standards Board. Before that, he was national technical partner for KPMG and was a professor of accounting in his native Scotland. He has worked on international standard-setting issues both as the first Chairman of the G4+1 and as a member of the IASC. Term expires 30 June 2011.

Thomas E. Jones, Vice-Chairman As the former Principal Financial Officer of Citicorp and Chairman of the IASC Board, Tom Jones brings extensive experience in standard setting and the preparation of financial accounts for financial institutions. A British citizen, Mr. Jones has worked in Europe and the US. Term expires 30 June 2009.

Mary E. Barth As a part-time Board member, Mary Barth, a US citizen, retains her position as Senior Associate Dean of the Graduate School of Business at Stanford University. Professor Barth was previously a partner at Arthur Andersen. Term expires 30 June 2009.

Hans-Georg Bruns Mr. Bruns has served as the Chief Accounting Officer for Daimler Chrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. He was responsible for addressing the accounting issues related to the Daimler Chrysler merger. Term expires 30 June 2011. However, he has notified the IASCF Trustees of his intention to retire as of 30 June 2007.

Anthony T. Cope Mr. Cope, a British citizen, joined the US FASB in 1993. Prior to that, he worked as a financial analyst in the United States for 30 years. As a member of the IASC Strategy Working Party, he was closely involved with the IASC's restructuring, and served as FASB's observer at IASC Board meetings for the IASC's last five years. Term expires 30 June 2007, at which time he will retire from the Board.

Philippe Danjou Appointed November 2006, having previously been director of the accounting division of the Autorité des Marchés Financiers (AMF), the French securities regulator. He was also Executive Director of the French Ordre des Experts Comptables (OEC) from 1982 to 1986, and in various advisory roles for European and international accounting and auditing groups. Term expires 30 June 2011.

Jan Engström Jan Engström, a Swedish citizen, held senior financial and operating positions with the Volvo Group, including serving on the management board and as Chief Financial Officer. He also was Chief Executive Officer of Volvo Bus Corporation. Term expires 30 June 2009.

Robert P. Garnett Mr. Garnett was the Executive Vice President of Finance for Anglo American plc, a South African company listed on the London Stock Exchange. He has worked as a preparer and analyst of financial statements in his native South Africa. He serves as Chairman of IFRIC. Term expires 30 June 2010.

Gilbert Gélard Having been a partner at KPMG in his native France, Gilbert Gélard has extensive experience with French industry. Mr. Gelard speaks eight languages and has been a member of the French standard-setting body (CNC). He also was a member of the former IASC Board. Term expires 30 June 2010.

James J. Leisenring Jim Leisenring has worked on issues related to accounting standard setting over the last three decades, as the Vice Chairman and more recently as Director of International Activities of the FASB in the United States. While at the FASB, Mr. Leisenring served for several years as the FASB's observer at meetings of the former IASC Board. Term expires 30 June 2010.

Warren McGregor Mr. McGregor developed an intimate knowledge of standard-setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. Term expires 30 June 2011.

Patricia O'Malley Ms. O'Malley was the first full-time Chair of the Accounting Standards Board of Canada. She has worked on issues related to global standard setting since 1983 and brings broad experience on work with financial instruments. Before joining the Canadian Board, Ms. O'Malley was a Technical Partner at KPMG in Canada. Term expires 30 June 2007, at which time she will retire from the Board.

John T. Smith Mr. Smith was previously a partner at Deloitte & Touche (USA). He was a member of the FASB's Emerging Issues Task Force, Derivatives Implementation Group, and Financial Instruments Task Force. He served on the IASC Task Force on Financial Instruments and chaired the IASC's IAS 39 Implementation Guidance Committee. He was a member of the IASC, SIC and IFRIC. Term expires 30 June 2012.

Tatsumi Yamada Tatsumi Yamada was a partner at the Japanese member firm of PricewaterhouseCoopers. He brings extensive experience with international standard setting as a Japanese member of the former IASC Board between 1996 and 2000. Term expires 30 June 2011.

Zhang Wei-Guo Zhang Wei-Guo will begin a five-year term as a member of the IASB on 1 July 2007. From 1997 to 2007, he was Chief Accountant of the China Securities Regulatory Commission (CSRC). Before joining the CSRC, Dr Zhang was a professor at Shanghai University of Finance and Economics (SUFE), where he also received his PhD in economics. Term expires 30 June 2012.

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IASB chronology

1973 Agreement to establish IASC signed by representatives of the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom/Ireland and United States.

Steering committees appointed for IASC's first three projects.

1975 First final IAS published: IAS 1 (1975) *Disclosure of Accounting Policies*, and IAS 2 (1975) *Valuation and Presentation of Inventories in the Context of the Historical Cost System*.

1982 The IASC Board is expanded to up to 17 members, including 13 country members appointed by the Council of the International Federation of Accountants (IFAC) and up to 4 representatives of organisations with an interest in financial reporting. All members of IFAC are members of IASC. IFAC recognises and will look to IASC as the global accounting standard setter.

1989 European Accounting Federation (FEE) supports international harmonisation and greater European involvement in IASC. IFAC adopts a public sector guideline to require government business enterprises to follow IASs.

1994 Establishment of IASC Advisory Council approved, with responsibilities for oversight and finances.

1995 European Commission supports the agreement between IASC and International Organization of Securities Commissions (IOSCO) to complete core standards and concludes that IASs should be followed by European Union multinationals.

1996 US SEC announces its support of the IASC's objective to develop, as expeditiously as possible, accounting standards that could be used in preparing financial statements for the purpose of cross-border offerings.

1997 Standing Interpretations Committee (SIC) is formed. 12 voting members. Mission to develop interpretations of IASs for final approval by the IASC.

Strategy Working Party is formed to make recommendations regarding the future structure and operation of IASC.

1998 IFAC/IASC membership expands to 140 accountancy bodies in 101 countries.

IASC completes the core standards with approval of IAS 39.

1999 G7 Finance Ministers and International Monetary Fund urge support for IASs to "strengthen the international financial architecture".

IASC Board unanimously approves restructuring into 14-member board (12 full-time) under an independent board of trustees.

2000 IOSCO recommends that its members allow multinational issuers to use IASC standards in cross-border offerings and listings.

Ad hoc nominating committee is formed, chaired by US SEC Chairman Arthur Levitt, to nominate the Trustees who will oversee the new IASB structure.

IASC member bodies approve IASC's restructuring and a new IASC Constitution.

Nominating committee announces initial Trustees.

Trustees name Sir David Tweedie (chairman of the UK Accounting Standards Board) as the first Chairman of the restructured International Accounting Standards Board.

2001 Members and new name of IASB announced. IASC Foundation formed. On 1 April 2001, the new IASB assumes its standard-setting responsibilities from the IASC. Existing IASs and SICs adopted by IASB.

IASB moves into its new offices at 30 Cannon Street, London.

IASB meets with chairs of its eight liaison national accounting standard-setting bodies to begin coordinating agendas and setting out convergence goals.

2002 SIC is renamed as the International Financial Reporting Interpretations Committee (IFRIC) with a mandate not only to interpret existing IASs and IFRSs but also to provide timely guidance on matters not addressed in an IAS or IFRS.

Europe requires IFRSs for listed companies starting 2005.

IASB and FASB issue joint agreement on convergence.

2003 First final IFRS and first IFRIC draft Interpretation published.

Improvements project completed – major revisions to 14 IASs.

2004 Extensive discussions about IAS 39 in Europe, leading to EC endorsement with two sections of IAS 39 'carved out'.

Webcasting of IASB meetings begins.

First IASB discussion paper and first final IFRIC Interpretation.

IFRSs 2 through 6 are published.

IFRICs 1 through 5 are published.

2005 IASB Board member becomes IFRIC chairman.

Constitutional changes.

US SEC 'roadmap' to eliminating IFRS-US GAAP reconciliation.

EC eliminates fair value option IAS 39 'carve out'

Meetings of Working Groups opened to public.

IFRS 7 is published.

IFRICs 6 and 7 are published (and IFRIC 3 withdrawn).

2006 Updated IASB/FASB agreement on convergence.

IASB statement on working relationships with other standard setters.

IASB announces that no new major standards will be effective before 2009.

IFRS 8 is published.

IFRICs 8 through 12 are published.

2007 February – IASB issues ED of IFRS for SMEs.

March – IAS 23 revised to remove the option to expense all borrowing costs.

Use of IFRSs around the world

Use of IFRSs around the world

Use of IFRSs for domestic reporting by listed companies as of March 2007

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Albania	No stock exchange. Companies use Albanian GAAP.			
Argentina	X			
Armenia				X
Aruba		X		
Austria				X (a)
Australia				X (b)
Azerbaijan	X			
Bahamas				X
Bahrain				X
Barbados				X
Bangladesh	X			
Belgium				X (a)
Belize	No stock exchange. Companies may use IFRSs.			
Benin	X			
Bermuda		X		
Bolivia		X		
Bosnia and Herzegovina				All large and medium-sized
Botswana		X		
Brazil	X		Financial institutions from 2010	
Brunei Darussalam	No stock exchange. Companies may use IFRSs.			
Bulgaria				X (a)
Burkina Faso	X			
Cambodia	No stock exchange. Companies may use IFRSs.			
Cayman Islands		X		

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Canada	X			
Chile	X			
China			X	
Cote D'Ivoire	X			
Colombia	X			
Costa Rica				X
Croatia				X
Cyprus				X (a)
Czech Rep.				X (a)
Denmark				X (a)
Dominica		X		
Dominican Rep.				X
Ecuador				X
Egypt				X
El Salvador		X		
Estonia				X (a)
Finland				X (a)
Fiji	X			
France				X (a)
Germany				X (a)
Georgia				X
Ghana				X
Gibraltar		X		
Greece				X (a)
Guam	No stock exchange. Companies use US GAAP.			
Guatemala				X
Guyana				X
Haiti				X
Honduras				X
Hong Kong				X (c)
Hungary				X (a)

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Iceland				X (a)
India	X			
Indonesia	X			
Iran	X			
Ireland				X (a)
Israel		X		
Italy				X (a)
Jamaica				X
Japan	X			
Jordan				X
Kazakhstan			Banks	
Kenya				X
Korea (South)	Korean equivalents of IFRSs permitted for listed companies other than banks from 2009. Required from 2011.			
Kuwait				X
Kyrgyzstan				X
Laos		X		
Latvia				X (a)
Lebanon				X
Liechtenstein				X (a)
Lesotho		X		
Lithuania				X (a)
Luxembourg				X (a)
Macau		X		
Macedonia				X
Malawi				X
Malaysia	X			
Mali	X			
Malta				X (a)
Mauritius				X

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Mexico	X			
Moldova	X			
Morocco		Non-banks	Banks	
Mozambique	X			
Myanmar		X		
Namibia				X
Netherlands				X (a)
NL Antilles		X		
Nepal				X
New Zealand				X (b)
Nicaragua				X
Niger	X			
Norway				X (a)
Oman				X
Pakistan	X			
Panama				X
Papua New Guinea				X
Peru				X
Philippines				X (c)
Poland				X (a)
Portugal				X (a)
Romania				X (a)
Russian Federation			Banks	Proposed phase-in starting 2006
Saudi Arabia	X			
Singapore				X (c)
Slovenia				X (a)
Slovak Rep.				X (a)
South Africa				X

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Spain				X (a)
Sri Lanka		X		
Sweden				X (a)
Syria	X			
Swaziland		X		
Switzerland		X		
Taiwan	X			
Tajikistan				X
Tanzania				X
Thailand	X			
Togo	X			
Trinidad and Tobago				X
Tunisia	X			
Turkey				X (d)
Uganda		X		
Ukraine				X
United Arab Emirates			Banks and some others	
United Kingdom				X (a)
United States	X			
Uruguay	X (e)			
Uzbekistan	X			
Vanatu	No stock exchange. Companies may use IFRSs.			
Venezuela				X
Vietnam	X			
Virgin Islands (British)		X		
Virgin Islands (US)	No stock exchange. Companies follow US GAAP.			
Yemen	No stock exchange. Companies may use IFRSs.			
Yugoslavia				X
Zambia		X		
Zimbabwe		X		

(a) Audit report and basis of presentation note refer to IFRSs as adopted by the EU.

(b) Compliance with IFRSs is stated in a note.

(c) IFRSs adopted virtually in full as national GAAP.

(d) Turkish companies may follow English version of IFRSs, or Turkish translation. If the latter, because of the translation delay, audit report and basis of presentation refer to "IFRSs as adopted for use in Turkey".

(e) By law, all companies must follow IFRSs existing at 19 May 2004. The auditor's report refers to conformity with Uruguayan GAAP.

Use of IFRSs in Europe

European Accounting Regulation effective from 2005

Listed companies To implement a "financial reporting strategy" adopted by the European Commission in June 2000, the European Union in 2002 approved an Accounting Regulation requiring all EU companies listed on a regulated market (about 8,000 companies in total) to follow IFRSs in their consolidated financial statements starting in 2005. In two limited cases, Member States were allowed to exempt certain companies temporarily from the IFRS requirement – but only until 2007: (a) companies that are listed both in the EU and on a non-EU exchange and that currently use US GAAP as their primary accounting standards, and (b) companies that have only publicly-traded debt securities. The IFRS requirement applies not only in the 27 EU countries but also in the three European Economic Area countries. Most large companies in Switzerland (not an EU or EEA member) already use IFRSs. Non-EU companies listed on EU exchanges could continue to use their national GAAPs until 2007.

In December 2006 the European Commission extended by two years the transitional exemption granted to foreign companies presenting financial statements prepared in accordance with national accounting standards for the issuing of securities on EU stock markets. Under these measures, 'third country' (non-EU) issuers are not subject to restatement obligations until 31 December 2008 if:

- the financial information contains an explicit and unreserved statement that it complies with IFRSs; or
- the financial information is prepared in accordance with Canadian GAAP, Japanese GAAP or US GAAP; or
- the financial information is prepared using a third-country GAAP in relation to which the following conditions are met:
  - the third country authority responsible for that GAAP has made a public commitment to converge it with IFRSs; and

– that authority has established a work programme that demonstrates convergence before 31 December 2008; and

– the issuer provides satisfactory evidence to the relevant competent authority demonstrating that the conditions in the above two points have been met.

A decision on the equivalence of third-country GAAPs with IFRSs is expected to take place before the end of 2009. The measures also require the Commission Services to adopt a definition of equivalence and an equivalence mechanism before 1 January 2008.

Unlisted companies EU Member States may extend the IFRS requirement to non-listed companies and to company-only statements. Details regarding the use of IFRSs in the consolidated financial statements of unlisted companies in EU/EEA countries are available on www.iasplus.com.

Endorsement of IFRSs for use in Europe

Under the EU Accounting Regulation, IFRSs must be individually endorsed for use in Europe. The endorsement process involves the following steps:

- EU translates the IFRSs into all European languages;
- the private-sector European Financial Reporting Advisory Group (EFRAG) gives its views to the European Commission (EC);
- the EC's Standards Advice Review Group (SARG) gives its views to the EC on EFRAG's recommendations;
- the EC's Accounting Regulatory Committee makes an endorsement recommendation; and
- the 27-member EC formally votes to endorse.

In November 2006, a new step was added to the procedure for endorsing IFRSs (including Interpretations) for use in Europe. The European Commission is required to submit its endorsement proposals to a Committee of the European Parliament, known as the Regulatory Procedure with Scrutiny Committee.

By the end of March 2007, the EC had voted to endorse all IASs, IFRSs 1 through 7, and all Interpretations except IFRICs 10, 11 and 12 – but with one carve-out from IAS 39 *Financial Instruments: Recognition and Measurement*. The carve-out allows use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis.

Enforcement of IFRSs in Europe

European securities markets are regulated by individual member states, subject to certain regulations adopted at the EU level. EU-wide regulations include:

- Standards adopted by the Committee of European Securities Regulators (CESR), a consortium of national regulators. Standard No. 1, Enforcement of Standards on Financial Information in Europe, sets out 21 high level principles that EU member states should adopt in enforcing IFRSs. Proposed Standard No. 2, Coordination of Enforcement Activities, proposes guidelines for implementing Standard No. 1.
- The Directive on Statutory Audit of Annual Accounts and Consolidated Accounts was issued in September 2006. The new Directive replaced the 8th Directive and amended the 4th and 7th Directives. Among other things, the Directive adopted International Standards on Auditing throughout the EU and required Member States to form auditor oversight bodies.
- Amendments to EU directives that establish the collective responsibility of board members for a company's financial statements.
- The European Group of Auditors' Oversight Bodies (EGAOB) was formed by the EC in late 2005.
- In February 2006, the European Commission formed a Roundtable for Consistent Application of IFRSs. The Roundtable convened for the first time in May 2006. The function of the Roundtable is to identify, at an early stage, emerging and potentially problematic accounting issues in relation to consistent application of IFRSs and to bring them to the attention of the IASB and IFRIC.
- A plan for cooperation on overlapping enforcement issues, including financial reporting, agreed to in late 2005 by the European groups of bank regulators, insurance regulators and securities regulators.
- A plan under development by CESR to make published financial reports of listed companies available electronically throughout Europe.

Use of IFRSs in the United States

SEC recognition of IFRSs

Of the approximately 13,000 companies whose securities are registered with the US Securities and Exchange Commission, over 1,200 are non-US companies. If these foreign companies submit IFRS or local GAAP financial statements rather than US GAAP, a reconciliation of earnings and net assets to US GAAP figures is required. Prior to 2005, there were about 50 IFRS filers with the SEC. Another 350 European companies listed in the United States have switched to IFRSs in their SEC filings for 2005. In 2005, the SEC announced a 'roadmap' aimed toward eliminating the reconciliation requirement for foreign IFRS filers by 2009, or possibly earlier, based on the SEC's review of IFRS filings in 2005 and 2006.

IFRS-US GAAP convergence

The Norwalk agreement

In October 2002, following a joint meeting at the offices of the US Financial Accounting Standards Board (FASB) in Norwalk, Connecticut, the FASB and the International Accounting Standards Board (IASB) formalised their commitment to the convergence of generally accepted accounting principles in the United States (US GAAP) and International Financial Reporting Standards (IFRSs) by issuing a memorandum of understanding (commonly referred to as 'the Norwalk agreement'). The two Boards pledged to use their best efforts to:

- make their existing financial reporting standards fully compatible as soon as is practicable; and
- coordinate their future work programmes to ensure that once achieved, compatibility is maintained.

"Compatible" does not mean word-for-word identical standards, but rather means that there are no significant differences between the two sets of standards.

Road map for convergence 2006-2008

In February 2006, the IASB and the FASB released a 'roadmap' which identified short- and long-term convergence projects.

Short-term projects

For the projects identified as short-term, the goal by 2008 is to reach a conclusion about whether major differences in those few focussed areas should be eliminated through one or more short-term standard-settting projects and, if so, to complete or substantially complete work in those areas.

These topics for short-term convergence include:

IASB

- Borrowing costs (remove expense option)
- Joint ventures (remove proportionate consolidation option for jointly controlled entities and clarify definition)

FASB

- Fair value option for financial instruments (issued as FAS 159 in February 2007)
- Investment properties
- Research and development
- Subsequent events

Use of IFRSs around the world

Joint

- Impairment
- Income taxes

Long-term projects

The goal for 2008 for the projects listed below is to have made significant progress in the following areas identified for improvement:

- Business combinations
- Conceptual framework
- Fair value measurement guidance (FAS 157 used by IASB as basis for Discussion Paper)
- Financial statement presentation
- Post-retirement benefits
- Revenue recognition
- Liabilities and equity
- Financial instruments
- Derecognition
- Consolidations and Special Purpose Entities
- Intangible assets
- Leases

More specific goals have been set for each individual project. The objective is to provide a timeframe for convergence efforts in the context of both the objective of removing the need for IFRS reconciliation requirements by 2009 and the existing agendas of the FASB and the IASB.

Use of IFRSs in Canada

Currently, domestic Canadian companies listed in the United States are allowed to use US GAAP for domestic reporting, but not IFRSs. All other Canadian companies must use Canadian GAAP. Foreign issuers in Canada are permitted to use IFRSs or a limited group of non-Canadian national GAAPs. In August 2006 the Accounting Standards Board of Canada (AcSB) published a detailed **Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP.** The Implementation Plan identifies key decisions that the AcSB will need to make as it implements its Strategic Plan for publicly accountable enterprises. Although the Implementation Plan may be revised and updated as circumstances warrant, currently it envisions 2010 as the last year that publicly accountable enterprises will report under current Canadian GAAP and 2011 as the first year of reporting under a complete set of IFRS-based Canadian standards. Because some current Canadian standards are already IFRS-based, and because others will become IFRS-based before 2011, the changeover to IFRS-based Canadian standards is likely to be gradual for most enterprises.

Use of IFRSs in Asia-Pacific

Asia-Pacific jurisdictions are taking a variety of approaches toward convergence of GAAP for domestic companies with IFRSs.

Requirement for IFRSs in place of national GAAP

No Asia-Pacific jurisdictions require IFRSs for all domestic listed companies.

All national standards are virtually word-for-word IFRSs

Australia, Hong Kong, New Zealand and the Philippines are taking this approach. Effective dates and transitions may differ from IFRSs. Australia and New Zealand have eliminated some accounting policy options and added some disclosures and guidance. In November 2006, the Australian Accounting Standards Board (AASB) issued proposals that would reverse those modifications made to IFRSs so as to make Australian accounting requirements the same as IFRSs.

Nearly all national standards are word-for-word IFRSs

Singapore has adopted most IFRSs word for word, but has modified several.

Some national standards are close to word-for-word IFRSs

India, Malaysia, Pakistan, Sri Lanka and Thailand have adopted selected IFRSs quite closely, but significant differences exist in other national standards, and there are time lags in adopting new or amended IFRSs.

IFRSs are looked to in developing national GAAP

This is done to varying degrees in China, Indonesia, Japan, Korea, Taiwan and Vietnam, but significant differences exist. In February 2006, China adopted a new Basic Standard and 38 new Chinese Accounting Standards consistent with IFRSs with few exceptions.

Some domestic listed companies may use IFRSs

This is true in China, Hong Kong, Laos and Myanmar.

Recent pronouncements

Effective for 31 December 2006 year ends

New Standard

IFRS 6	Exploration for and Evaluation of Mineral Resources

Amendments to Standards

Amendment to IAS 19	Actuarial Gains and Losses, Group Plans and Disclosures
Amendment to IAS 21	Net Investment in a Foreign Operation
Amendment to IAS 39	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
Amendment to IAS 39	The Fair Value Option
Amendment to IAS 39 and IFRS 4	Financial Guarantee Contracts

New Interpretations

IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 December 2005).

Available for early adoption for 31 December 2006 year ends

New Standards		Effective for accounting periods beginning on or after
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
Amendments to Standards		
Amendment to IAS 1	Capital Disclosures	1 January 2007
Revised Guidance on Implementing IFRS 4		1 January 2007
Amendment to IAS 23	Removal of option to expense all borrowing costs	1 Januaury 2009
New Interpretations		
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

Summaries of current Standards

On pages 25 to 86 we summarise the provisions of all International Financial Reporting Standards in issue at 31 March 2007, as well as the Preface to IFRSs and the Framework for the Preparation and Presentation of Financial Statements. These summaries are intended as general information and are not a substitute for reading the entire Standard.

Preface to International Financial Reporting Standards

Adoption Adopted by the IASB in May 2002.

Summary Covers, among other things:

- the objectives of the IASB;
- the scope of IFRSs;
- due process for developing IFRSs and Interpretations;
- equal status of “black letter” and “grey letter” paragraphs;
- policy on effective dates; and
- use of English as the official language.

Framework for the Preparation and Presentation of Financial Statements

Adoption Approved by the IASC Board in April 1989.

Adopted by the IASB in April 2001.

Summary The Framework:

- Defines the objective of general purpose financial statements. The objective is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

- Identifies the qualitative characteristics that make information in financial statements useful. The Framework identifies four principal qualitative characteristics: understandability, relevance, reliability and comparability.
- Defines the basic elements of financial statements and the concepts for recognising and measuring them in financial statements. Elements directly related to financial position (balance sheet) are assets, liabilities and equity. Elements directly related to performance (income statement) are income and expenses.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Effective date

First IFRS financial statements for a period beginning on or after 1 January 2004.

Objective

To prescribe the procedures when an entity adopts IFRSs for the first time as the basis for preparing its general-purpose financial statements.

Summary

Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2006:

- Select its accounting policies based on IFRSs in force at 31 December 2006.
- Prepare at least 2006 and 2005 financial statements and restate retrospectively the opening balance sheet (first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2006:
  - since IAS 1 requires at least one year of comparative prior period financial information, the opening balance sheet will be 1 January 2005 if not earlier; and
  - if a 31 December 2006 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2005, in addition to full financial statements for 2005 and 2006, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2005.

Interpretations

None.

Useful Deloitte publication

First-time adoption: A guide to IFRS 1

Application guidance for the "stable platform" Standards effective in 2005. Available for download at www.iasplus.com/dttpubs/pubs.htm

IFRS 2 *Share-based Payment*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting for transactions in which an entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

Summary

- All share-based payment transactions must be recognised in the financial statements, using a fair value measurement basis.
- An expense is recognised when the goods or services received are consumed.
- The same recognition and measurement standards apply to both public and non-public companies.
- In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received. Only if the fair value of the goods or services cannot be measured reliably would the fair value of the equity instruments granted be used.

- For transactions with employees and others providing similar services, the entity is required to measure the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received.
- For transactions measured at the fair value of the equity instruments granted (such as transactions with employees), fair value should be estimated at grant date.
- For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
- For goods or services measured by reference to the fair value of the equity instruments granted, IFRS 2 specifies that, in general, vesting conditions, except market conditions, are not taken into account when estimating the fair value of the shares or options at the relevant measurement date (as specified above). Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.
- IFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions on which those equity instruments were granted. In the absence of market prices, fair value is estimated using a valuation model to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. IFRS 2 does not specify which particular valuation model should be used.

Current Standards

Interpretations

IFRIC 8 *Scope of IFRS 2*

IFRIC 8 clarifies the application of IFRS 2 to share-based payment transactions in which the entity cannot specifically identify some or all of the goods or services received.

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

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

Useful Deloitte publication

Share-based payment: A guide to IFRS 2

Guidance on applying IFRS 2 to many common share-based payment transactions. Available for download at www.iasplus.com/dttpubs/pubs.htm

IFRS 3 *Business Combinations*

Effective date

Business combinations on or after 31 March 2004.

Objective

To prescribe the financial reporting by an entity when it undertakes a business combination.

Summary

- A business combination is the bringing together of separate entities or businesses into one reporting entity.
- IFRS 3 does not apply to formation of a joint venture, combinations of entities or businesses under common control, or business combinations involving two or more mutual entities.
- Purchase method is used for all business combinations. The uniting (pooling) of interests method is prohibited.

- Steps in applying the purchase method:
  1. Identify the acquirer. The acquirer is the combining entity that obtains control of the other combining entities or businesses.
  2. Measure the cost of the combination. The cost is the total of (a) the fair values, at date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, plus (b) any costs directly attributable to the business combination. Cost is measured at the date of exchange.
  3. Allocate, as of the acquisition date, the cost of the combination to the assets acquired and liabilities and contingent liabilities assumed. To do this, the acquiring entity will recognise the identifiable assets, liabilities and contingent liabilities of the acquiree existing at the acquisition date at their fair value if fair value can be measured reliably. Any minority interest in the acquiree is stated at the minority's proportion of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
- If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, account for the combination using provisional values. Recognise adjustments to provisional values within 12 months as restatements. No adjustments after 12 months except to correct an error.
- Goodwill is initially measured as the excess of cost of business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.
- Goodwill and other intangible assets with indefinite lives are not amortised, but they must be tested for impairment at least annually. IAS 36 provides guidance for impairment testing.

Current Standards

- If the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost, the excess (previously known as negative goodwill) is recognised as an immediate gain.
- Minority interest is reported within equity in the balance sheet. (The Board has recently begun using the term "non-controlling interest" in place of minority interest.)

Interpretations

None.

Useful Deloitte publication

Business combinations: A guide to IFRS 3

Supplments the IASB's own guidance for applying this Standard. Available for download at www.iasplus.com/dttpubs/pubs.htm

IFRS 4 *Insurance Contracts*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the financial reporting for insurance contracts until the IASB completes the second phase of its project on insurance contracts.

Summary

- Insurers are exempted from applying the IASB Framework and certain existing IFRSs.
- Catastrophe reserves and equalisation provisions are prohibited.
- Requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
- Insurance liabilities may not be offset against related reinsurance assets.
- Accounting policy changes are restricted.
- New disclosures are required.

- Effective 1 January 2006, financial guarantee contracts are in the scope of IAS 39, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. In this instance, the issuer may elect to apply either IAS 39 or IFRS 4.
- The 2006 revised guidance on implementation applies only where an entity has adopted IFRS 7.

Interpretations None.

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

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.

Summary

- Introduces the classification 'held for sale' and the concept of a disposal group (a group of assets to be disposed of in a single transaction, including any related liabilities also transferred).
- Non-current assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Such non-current assets held for sale (whether individually or as part of a disposal group) are not depreciated.
- A non-current asset classified as held for sale, and the assets and liabilities in a disposal group classified as held for sale, are presented separately on the face of the balance sheet.

Current Standards

- A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or major geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.
- An entity is required to present as a single amount on the face of the income statement the sum of the profit or loss of discontinued operations for the period and the gain or loss arising on the disposal of discontinued operations (or the remeasurement of the assets and liabilities of discontinued operations as held for sale). Therefore, the income statement is effectively divided into two sections – continuing operations and discontinued operations.

Interpretations None.

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Effective date Annual periods beginning on or after 1 January 2006.

Objective To prescribe the financial reporting for the exploration for and evaluation of mineral resources until the IASB completes a comprehensive project in this area.

Summary

- IFRS 6 does not require or prohibit any specific accounting policies for the recognition and measurement of exploration and evaluation assets. An entity is permitted to continue to use its existing accounting policies provided that they comply with the requirements of paragraph 10 of IAS 8, i.e. that they result in information that is relevant to the economic decision-making needs of users and that is reliable.

- The Standard grants a temporary exemption from applying paragraphs 11 and 12 of IAS 8 – which specify a hierarchy of sources of IFRS GAAP in the absence of a specific Standard.
- Requires an impairment test when there is an indication that the carrying amount of exploration and evaluation assets exceeds recoverable amount.
- Allows impairment to be assessed at a level higher than the "cash generating unit" under IAS 36, but measures impairment in accordance with IAS 36 once it is assessed.
- Requires disclosure of information that identifies and explains amounts arising from exploration and evaluation of mineral resources.

Interpretations None.

IFRS 7 *Financial Instruments: Disclosures*

Effective date Annual periods beginning on or after 1 January 2007. Supersedes IAS 30 and the disclosure requirements of IAS 32.

Objective To prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.

Summary

- IFRS 7 requires disclosure of information about the significance of financial instruments for an entity's financial position and performance. These include:
  - Balance sheet disclosures, including information about financial assets and financial liabilities by category, special disclosures when the fair value option is used, reclassifications, derecognitions, pledges of assets, embedded derivatives, and breaches of terms of agreements;
  - Income statement and equity disclosures, including information about recognised income, expenses, gains, and losses, interest income and expense, fee income, and impairment losses; and
  - Other disclosures, including information about accounting policies, hedge accounting, and the fair values of each class of financial asset and financial liability.
- IFRS 7 requires disclosure of information about the nature and extent of risks arising from financial instruments:
  - Qualitative disclosures about exposures to each class of risk and how those risks are managed; and
  - Quantitative disclosures about exposures to each class of risk, separately for credit risk, liquidity risk, and market risk (including sensitivity analyses).

Interpretations None.

Useful Deloitte publication **iGAAP 2007: Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained**

3rd edition (March 2007). Guidance on how to apply these complex standards, including illustrative examples, and interpretations. Information at www.iasplus.com/dttpubs/pubs.htm.

IFRS 8 *Operating Segments*

Effective date Annual periods beginning on or after 1 January 2009. Supercedes IAS 14.

Core principle An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IFRS 8 is closely aligned to the US standard SFAS 131.

Summary

- IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):
  - whose debt or equity instruments are traded in a public market; or

- that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

- An operating segment is a component of an entity:
  - that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
  - whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
  - for which discrete financial information is available.
- Guidance is provided on which operating segments are reportable (generally 10% thresholds).
- At least 75% of the entity's revenue must be included in reportable segments.
- 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.
- Some entity-wide disclosures 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 from all entities – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the entity's organisation.

Current Standards

- There is also a requirement to disclose information about transactions with major external customers (10% or more of the entity's revenue).

Interpretations

None.

Useful Deloitte publication

IFRS 8 Operating Segments: A disclosure checklist

Supplements Deloitte's presentation and disclosure checklist to reflect the disclosures required by IFRS 8. Available for download at www.iasplus.com/fs/fs.htm

IAS 1 *Presentation of Financial Statements*

Effective date

Annual periods beginning on or after 1 January 2005 (1 January 2007 for capital disclosures).

Objective

To set out the overall framework for presenting general purpose financial statements, including guidelines for their structure and the minimum content.

Summary

- Fundamental principles underlying the preparation of financial statements, including going concern assumption, consistency in presentation and classification, accrual basis of accounting, and materiality.
- Assets and liabilities, and income and expenses, may not be offset unless offsetting is permitted or required by another IFRS.
- Comparative prior-period information must be presented for amounts shown in the financial statements and notes.
- A complete set of financial statements should include a balance sheet, income statement, statement of changes in equity, cash flow statement, accounting policies and explanatory notes.

- The statement of changes in equity must show either:
  - all changes in equity; or
  - changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders.
- Financial statements generally to be prepared annually. If the date of the year end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general, post-balance sheet events are not considered in classifying items as current or non-current.
- IAS 1 specifies minimum line items to be presented on the face of the balance sheet, income statement and statement of changes in equity, and includes guidance for identifying additional line items.
- Analysis of expenses in the income statement may be given by nature or by function. If presented by function, classification by nature must be provided in the notes.
- IAS 1 specifies minimum note disclosures. These must include information about:
  - accounting policies followed;
  - the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
  - the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Current Standards

- An appendix to IAS 1 provides illustrative balance sheets, income statements and statements of changes in equity.
- The 2005 amendment (effective 2007) requires disclosures about the reporting entity's capital structure and compliance with capital requirements.

Interpretations

SIC 29 *Disclosure – Service Concession Arrangements*

Disclosure is required if an entity agrees to provide services that give the public access to major economic or social facilities.

Useful Deloitte publication

IFRS model financial statements

Illustrating the layout of financial statements, and the presentation and disclosure requirements of IFRSs.

IAS 2 *Inventories*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting treatment for inventories, including cost determination and expense recognition.

Summary

- Inventories are required to be stated at the lower of cost and net realisable value (NRV).
- Costs include purchase cost, conversion cost (materials, labour and overheads), and other costs to bring inventory to its present location and condition, but not foreign exchange differences.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- For interchangeable items, cost is determined on either a FIFO or weighted average basis. LIFO is not permitted.
- When inventories are sold, the carrying amount should be recognised as an expense in the period in which the related revenue is recognised.

- Write-downs to NRV are recognised as an expense in the period of the write-down. Reversals arising from an increase in NRV are recognised as a reduction of the inventory expense in the period in which they occur.

Interpretations None.

IAS 7 *Cash Flow Statements*

Effective date Periods beginning on or after 1 January 1994.

Objective To require the presentation of information about historical changes in an entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing and financing activities.

Summary

- Cash flow statement must analyse changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short term (less than three months from date of acquisition), readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. Generally exclude equity investments.
- Cash flows from operating, investing and financing activities must be separately reported.
- Cash flows for operating activities are reported using either the direct (recommended) or the indirect method.
- Cash flows arising from taxes on income are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows.

- Aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash should be excluded from the cash flow statement, but they should be separately disclosed.
- Illustrative cash flow statements are included in appendices to IAS 7.

Interpretations None.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates, and errors.

Summary

- Prescribes a hierarchy for choosing accounting policies:
  - IASB Standards and Interpretations, taking into account any relevant IASB implementation guidance;
  - in the absence of a directly applicable Standard or Interpretation, look to the requirements and guidance in IASB Standards and Interpretations dealing with similar and related issues, and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework for the Preparation and Presentation of Financial Statements; and

- – management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by a Standard or Interpretation, or it results in reliable and more relevant information.
- If a change in accounting policy is required by a Standard or Interpretation, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is impracticable, include the cumulative effect of the change in profit or loss. If the cumulative effect cannot be determined, apply the new policy prospectively.
- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current year, or future years, or both (no restatement).
- All material errors should be corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening balance sheet.

Interpretations None.

Current Standards

IAS 10 *Events After the Balance Sheet Date*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe:

- When an entity should adjust its financial statements for events after the balance sheet date.
- Disclosures about the date when the financial statements were authorised for issue, and about events after the balance sheet date.

Summary

- Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue.
- Adjusting events – adjust the financial statements to reflect those events that provide evidence of conditions that existed at the balance sheet date (such as resolution of a court case after the balance sheet date).
- Non-adjusting events – do not adjust the financial statements to reflect events that arose after the balance sheet date (such as a decline in market prices after year end, which does not change the valuation of investments at the balance sheet date).
- Dividends proposed or declared on equity instruments after the balance sheet date should not be recognised as a liability at the balance sheet date. Disclosure is required.
- An entity should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.
- An entity must disclose the date its financial statements are authorised for issue.

Interpretations None.

IAS 11 *Construction Contracts*

Effective date

Periods beginning on or after 1 January 1995.

Objective

To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

Summary

- Contract revenue should comprise the amount agreed in the initial contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenues and can be measured reliably.
- Contract costs should comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be reasonably allocated to the contract, together with such other costs as are directly attributable to the customer under the terms of the contract.
- Where the outcome of a construction contract can be estimated reliably, revenue and costs should be recognised by reference to the stage of completion of contract activity (the percentage of completion method of accounting).
- If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recovered, and contract costs should be expensed as incurred.
- If it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised immediately.

Interpretations

None.

IAS 12 *Income Taxes*

Effective date

Periods beginning on or after 1 January 1998. Certain revisions effective for periods beginning on or after 1 January 2001.

Objective

To prescribe the accounting treatment for income taxes.

To establish the principles and provide guidance in accounting for the current and future income tax consequences related to:

- the future recovery (settlement) of carrying amounts of assets (liabilities) in an entity's balance sheet; and
- current period transactions recognised in the income statement or directly through equity.

Summary

- Current tax liabilities and assets should be recognised for current and prior period taxes, measured at the rates applicable for the period.
- A temporary difference is a difference between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities must be recognised for the future tax consequences of all taxable temporary differences with three exceptions:
  - where the deferred tax liability arises from the initial recognition of goodwill;
  - the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and
  - differences from investments in subsidiaries, branches and associates, and interests in joint ventures (e.g. due to undistributed profits) where the entity is able to control the timing of the reversal of the difference, it is probable that the reversal will not occur in the foreseeable future and taxable profit will be available to utilise the difference.

- A deferred tax asset must be recognised for deductible temporary differences, unused tax losses, and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, with the following exceptions:
  - a deferred tax asset arising from the initial recognition of an asset/liability, other than in a business combination, which, at the time of the transaction, does not affect the accounting or the taxable profit; and
  - assets arising from deductible temporary differences associated with investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future.
- Deferred tax liabilities (assets) should be measured at the tax rates expected to apply when the liability is settled or the asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.
- Discounting of deferred tax assets and liabilities is prohibited.
- Deferred taxes must be presented as non-current items in the balance sheet.

Interpretations

SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

Measure the deferred tax liability or asset arising from revaluation based on the tax consequences from the sale of the asset rather than through use.

SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*

The current and deferred tax consequences of the change should be included in net profit or loss for the period unless those consequences relate to transactions or events that were recognised directly in equity.

IAS 14 *Segment Reporting*

Effective date

Periods beginning on or after 1 July 1998. Superseded by IFRS 8 (effective in 2009).

Objective

To establish principles for reporting financial information by line of business and by geographical area.

Summary

- IAS 14 applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. Also, any entity voluntarily providing segment information must comply with the requirements of IAS 14.
- An entity must look to its organisational structure and internal reporting system for the purpose of identifying its business segments and geographical segments.
- If internal segments are not geographical or products/service-based, then look to next lower level of internal segmentation to identify reportable segments.
- Guidance is provided on which segments are reportable (generally 10% thresholds).
- One basis of segmentation is primary and the other secondary.
- Segment information should be based on the same accounting policies as the consolidated group or entity.
- IAS 14 sets out disclosure requirements for primary and secondary segments, with considerably less disclosure for the secondary segments.

Interpretations

None.

IAS 16 *Property, Plant & Equipment*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the principles for the initial recognition and subsequent accounting for property, plant and equipment.

Summary

- Items of property, plant, and equipment should be recognised as assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. If payment is deferred, interest must be recognised.
- Subsequent to acquisition, IAS 16 allows a choice of accounting model:
  - cost model: the asset is carried at cost less accumulated depreciation and impairment; or
  - revaluation model: the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued. Revaluation increases are credited to equity.
- Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss.
- When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not recycled through profit or loss.
- Components of an asset with differing patterns of benefits must be depreciated separately.

Current Standards

- Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern of benefit consumption. The residual value must be reviewed at least annually and should equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. If operation of an item of property, plant and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.
- Impairment of property, plant and equipment must be assessed under IAS 36.
- All exchanges of property, plant and equipment should be measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

Interpretations None.

IAS 17 *Leases*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Summary

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples:
  - lease covers substantially all of the asset's life; and/or

– present value of lease payments is substantially equal to the asset's fair value.

- All other leases are classified as operating leases.
- A lease of both land and buildings should be split into land and building elements. Land element is generally an operating lease. Building element is an operating or finance lease based on the criteria in IAS 17. However, separate measurement of the land and buildings elements is not required if the lessee's interest in both land and buildings is classified as an investment property under IAS 40 and the fair value model is adopted.
- Finance leases – Lessee's Accounting:
  – recognise asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset;
  – depreciation policy – as for owned assets; and
  – finance lease payment – apportioned between interest expense and reduction in liability.
- Finance leases – Lessor's Accounting:
  – recognise as a receivable at an amount equal to the net investment in the lease; and
  – recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases – Lessee's Accounting:
  – recognise lease payments as an expense in the income statement on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Operating leases – Lessor's Accounting:
  – assets held for operating leases should be presented in the lessor's balance sheet according to the nature of the asset; and

Current Standards

  – lease income should be recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Lessors must spread initial direct costs over the lease term (immediate expensing prohibited).
- Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

Interpretations

SIC 15 *Operating Leases – Incentives*

Lease incentives (such as rent-free periods) should be recognised by both the lessor and the lessee as a reduction of rental income and expense, respectively, over the lease term.

SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

If a series of transactions involves the legal form of a lease and can only be understood with reference to the series as a whole, then the series should be accounted for as a single transaction.

IFRIC 4 *Determining whether an Arrangement contains a Lease*

IFRIC 4 addresses arrangements that do not take the legal form of a lease but which convey rights to use assets in return for a payment or a series of payments. An arrangement that meets the following criteria is, or contains, a lease that should be accounted for in accordance with IAS 17 both from the lessee and lessor perspectives:

- the fulfilment of the arrangement depends upon a specific asset (either explicitly or implicitly in the arrangement); and
- the arrangement conveys the right to control the use of the underlying asset. IFRIC 4 provides further guidance to identify when this situation exists.

IAS 18 *Revenue*

Effective date

Periods beginning on or after 1 January 1995.

Objective

To prescribe the accounting treatment for revenue arising from certain types of transactions and events.

Summary

- Revenue should be measured at the fair value of the consideration received/receivable.
- Recognition:
  - from sale of goods: when significant risks and rewards have been transferred to buyer, loss of effective control by seller, and amount can be reliably measured.
  - from sale of services: percentage of completion method.
  - for interest, royalties, and dividends: recognised when it is probable that economic benefits will flow to the entity.

    Interest – using the effective interest method as set out in IAS 39.

    Royalties – on an accrual basis in accordance with the substance of the agreement.

    Dividends – when shareholder's right to receive payment is established.

Interpretations

SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

Recognise revenue from barter transactions involving advertising services only if substantial revenue is also received from non-barter transactions.

Current Standards

IAS 19 *Employee Benefits*

Effective date

Periods beginning on or after 1 January 1999. Certain revisions effective on or after 1 January 2001; other revisions effective for periods ending 31 May 2002. Revision in 2004 to permit recognition of actuarial gains and losses in equity and introduce additional disclosure requirements is effective 1 January 2006.

Objective

To prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, annual profit-sharing, bonuses and non-monetary benefits); pensions; post-employment life insurance and medical benefits; and other long-term employee benefits (long-service leave, disability, deferred compensation, and long-term profit-sharing and bonuses).

Summary

- Underlying principle: the cost of providing employee benefits should be recognised in the period in which the entity receives services from the employee, rather than when the benefits are paid or payable.
- Short-term employee benefits (payable within 12 months) should be recognised as an expense in the period in which the employee renders the service.
- Profit-sharing and bonus payments are to be recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefit plans (such as pensions and health care) are categorised as either defined contribution plans or defined benefit plans.
- Under defined contribution plans, expenses are recognised in the period the contribution is payable.

- Under defined benefit plans, a liability is recognised in the balance sheet equal to the net of:
  - the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - deferred actuarial gains and losses and deferred past service cost; and
  - the fair value of any plan assets at the balance sheet date.
- Actuarial gains and losses may be (a) recognised immediately in profit or loss, (b) deferred up to a maximum, with any excess amortised in profit or loss (the "corridor approach"), or (c) recognised immediately directly in equity.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- For group plans, the net cost is recognised in the separate financial statements of the entity that is legally the sponsoring employer unless a contractual agreement or stated policy for allocating the cost exists.
- Long-term employee benefits should be recognised and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, actuarial gains or losses and past service costs must always be recognised immediately in earnings.
- Termination benefits should be recognised when the entity is demonstrably committed to terminating one or more employees before the normal retirement date or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.
- Effective 2005, equity compensation benefits are covered by IFRS 2, not IAS 19.

Current Standards

- The amendments effective from 1 January 2006 introduce an option to recognise actuarial gains and losses arising from a defined benefit plan in full in the period in which they occur, outside profit or loss, in a statement of recognised income and expense. Whichever policy is selected, it should be consistently applied for all defined benefit plans.
- The amendments introduce additional disclosure requirements that provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost.
- The amendments specify how group entities should account for defined benefit group plans in their separate or individual financial statements. They also clarify the accounting treatment for a contractual agreement under a multi-employer plan that determines how a surplus is distributed (or deficit funded).

Interpretations None.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Effective date Periods beginning on or after 1 January 1984.

Objective To prescribe the accounting for, and disclosure of, government grants and other forms of government assistance.

Summary

- Recognise government grants only when there is reasonable assurance that the entity will comply with the conditions attached to the grants, and the grants will be received. Non-monetary grants are usually recognised at fair value, though recognition at nominal value is permitted.

- Grants should not be credited directly to equity, but should be recognised in profit or loss over the periods necessary to match them with the related costs.
- Income-related grants may either be presented as a credit in the income statement or deduction in reporting the related expense.
- Asset-related grants may be presented as either deferred income in the balance sheet, or deducted in arriving at the carrying amount of the asset.
- Repayment of a government grant is accounted for as a change in accounting estimate with different treatment for income- and asset-related grants.

Interpretations

SIC 10 *Government Assistance – No Specific Relation to Operating Activities*

Government assistance to entities that is aimed at encouragement or long-term support of business activities either in certain regions or industry sectors should be treated as a government grant under IAS 20.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

Summary

- First, determine the reporting entity's functional currency – the currency of the primary economic environment in which the entity operates.

- Then translate all foreign currency items into the functional currency:
  - at date of transaction, record using the transaction-date exchange rate for initial recognition and measurement;
  - at subsequent balance sheet dates:

    use closing rate for monetary items;

    use transaction-date exchange rates for non-monetary items carried at historical cost; and

    use valuation-date exchange rates for non-monetary items that are carried at fair value.
- Exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different than when initially recognised are included in profit or loss, with one exception:

  exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognised in the consolidated financial statements that include the foreign operation in a separate component of equity; such differences will be recognised in profit or loss on disposal of the net investment.
- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet;
  - income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions; and
  - all resulting exchange differences are recognised as a separate component of equity.

- Special rules for translating into a presentation currency the results and financial position of an entity whose functional currency is hyperinflationary.

Interpretations **SIC 7 *Introduction of the Euro***

Explained how to apply IAS 21 when the Euro was first introduced.

IAS 23 *Borrowing Costs*

Effective date Periods beginning on or after 1 January 1995. Revised Standard issued March 2007 and effective 1 January 2009 will remove the option to use the expense model referred to below.

Objective To prescribe the accounting treatment for borrowing costs.

Summary

- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, and amortisation of ancillary costs incurred in the arrangement of borrowings.
- Two accounting models are allowed:
  - expense model: charge all borrowing costs to expense when incurred; and
  - capitalisation model: capitalise borrowing costs directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits to the entity, and the costs can be measured reliably.

    All other borrowing costs that do not satisfy the conditions for capitalisation are to be expensed when incurred.
- A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Examples include manufacturing plants, investment properties and some inventories.

- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, apply a capitalisation rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to expenditure incurred during the period, to determine the amount of borrowing costs eligible for capitalisation.

Interpretations None.

IAS 24 *Related Party Disclosures*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To ensure that financial statements draw attention to the possibility that the financial position and results of operations may have been affected by the existence of related parties.

Summary

- Related parties are parties that control or have significant influence over the reporting entity (including parent companies, owners and their families, major investors, and key management personnel) and parties that are controlled or significantly influenced by the reporting entity (including subsidiaries, joint ventures, associates, and post-employment benefit plans).
- Requires disclosure of:
  - relationships involving control, even when there have been no transactions;
  - related party transactions; and
  - management compensation (including an analysis by type of compensation).
- For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the transaction.

- Examples of related party transactions that must be disclosed:
  - purchases or sales of goods;
  - purchases or sales of assets;
  - rendering or receiving of services;
  - leases;
  - transfers of research and development;
  - transfers under licence agreements;
  - transfers under finance arrangements (including loans and equity contributions);
  - provision of guarantees or collateral; and
  - settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Interpretations None.

IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Effective date Periods beginning on or after 1 January 1998.

Objective To specify the measurement and disclosure principles for the financial reports of retirement benefit plans.

Summary

- Sets out the reporting requirements for both defined contribution and defined benefit plans, including a statement of net assets available for benefits and disclosure of the actuarial present value of promised benefits (split between vested and non-vested).
- Specifies the need for actuarial valuation of the benefits for defined benefits and the use of fair values for plan investments.

Interpretations None.

IAS 27 *Consolidated and Separate Financial Statements*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe requirements for preparing and presenting consolidated financial statements for a group of entities under the control of a parent.

To prescribe how to account for investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

Summary

- A subsidiary is an entity controlled by another entity, the parent. Control is the power to govern the operating and financial policies.
- Consolidated financial statements are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity.
- Consolidated financial statements must include all subsidiaries. No exemption for "temporary control" or "subsidiary that operates under severe long-term funds transfer restrictions". However, if, on acquisition, a subsidiary meets the criteria to be classified as held for sale under IFRS 5, it is accounted for under that Standard.
- Intragroup balances, transactions, income and expenses are eliminated in full.
- All entities in the group must use the same accounting policies.
- Reporting dates of subsidiaries cannot be more than three months different from the group reporting date.
- Minority interest is reported in equity in the balance sheet and is not deducted in measuring the group's profit or loss. However, group profit or loss is allocated between minority and the parent's shareholders on the face of the income statement.

- In the parent's separate financial statements: account for all of its investments in subsidiaries, associates and joint ventures (other than those that are classified as held for sale under IFRS 5) either at cost or as investments under IAS 39.

Interpretations

SIC 12 Consolidation – Special Purpose Entities

An entity should consolidate a special purpose entity (SPE) when, in substance, it controls the SPE. SIC 12 provides indicators of control.

IAS 28 *Investments in Associates*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the investor's accounting for investments in associates over which it has significant influence.

Summary

- Applies to all investments in which an investor has significant influence unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.
- Interests in associates that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.
- Otherwise, an investor must use the equity method for all investments in associates over which it has significant influence.
- Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of associate.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's post acquisition change in net assets.

- Investor's income statement reflects its share of the investee's post-acquisition profit or loss.
- Associate's accounting policies must be the same as those of the investor.
- Reporting dates of associates cannot be more than three months different from the investor's reporting date.
- Even if consolidated accounts are not prepared, for example, because the investor has no subsidiaries, equity accounting is required. However, the investor does not apply the equity method when presenting "separate financial statements" as defined in IAS 27. Instead, the investor accounts for the investment either at cost or as an investment under IAS 39.
- Requirement for impairment testing in accordance with IAS 36. The impairment indicators in IAS 39 also apply.

Interpretations

None.

IAS 29 *Financial Reporting in Hyperinflationary Economies*

Effective date

Periods beginning on or after 1 January 1990.

Objective

To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

Summary

- 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.
- Generally an economy is hyperinflationary when there is 100% inflation over 3 years.

Interpretations

IFRIC 7 *Applying the Restatement Approach under IAS 29*

When the economy of an entity's functional currency becomes hyperinflationary, the entity must apply the requirements of IAS 29 as though the economy had always been hyperinflationary.

IAS 30 *Disclosures in Financial Statements of Banks and Similar Institutions*

Effective date

Periods beginning on or after 1 January 1991. Superseded by IFRS 7 effective in 2007.

Objective

To prescribe appropriate presentation and disclosure standards for banks and similar financial institutions, as a supplement to the requirements of other IFRSs.

Summary

- Requires banks to classify items in the income statement and balance sheet by their nature, and to present assets in order of relative liquidity.
- Identifies certain minimum income statement and balance sheet line items for banks.
- Disclosure requirements include concentration of assets, liabilities, and off-balance items; losses on loans and advances; contingencies; asset pledges; and general banking risks.

Interpretations

None.

IAS 31 *Interests in Joint Ventures*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting treatment required for interests in joint ventures (JVs), regardless of the structure or legal form of the JV activities.

Current Standards

Summary

- Applies to all investments in which investor has joint control unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.
- The key characteristic of a JV is a contractual arrangement to share control. JVs may be classified as jointly controlled operations, jointly controlled assets or jointly controlled entities. Different recognition principles for each type of JV.
- Jointly controlled operations: venturer recognises the assets it controls, and expenses and liabilities it incurs, and its share of income earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: venturer recognises its share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.
- Jointly controlled entities: two accounting policy choices are permitted:
  - proportionate consolidation: under this method the venturer's balance sheet includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its income statement includes its share of the income and expenses of the jointly controlled entity; and
  - the equity method, as described in IAS 28.
- Interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.

- Even if consolidated accounts are not prepared (for example, because the venturer has no subsidiaries), proportionate consolidation/ equity accounting is required for jointly controlled entities. However, in the venturer's "separate financial statements" as defined in IAS 27, interests in jointly controlled entities should be accounted for either at cost or as investments under IAS 39.

Interpretations

SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*

Recognition of proportionate share of gains or losses on contributions of non-monetary assets in exchange for an equity interest is generally appropriate.

IAS 32 *Financial Instruments: Disclosure and Presentation*

Effective date

Annual periods beginning on or after 1 January 2005. Disclosure provisions are superseded on adoption of IFRS 7, effective in 2007.

Objective

To prescribe principles for classifying and presenting financial instruments as liabilities or equity; and for offsetting financial assets and liabilities.

Summary

- Issuer's classification of an instrument either as a liability or an equity instrument:
  - based on substance, not form of the instrument;
  - classification is made at the time of issue and is not subsequently altered;
  - an instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or another financial asset. An example is mandatorily redeemable preferred shares;
  - an instrument that does not give rise to such a contractual obligation is an equity instrument; and
  - interest, dividends, gains and losses relating to an instrument classified as a liability should be reported as income or expense as appropriate.
- At issue, an issuer must classify separately the debt and equity components of a single compound instrument such as convertible debt and debt issued with detachable rights or warrants.
- A financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously.
- Cost of treasury shares is deducted from equity, and resales of treasury shares are equity transactions.
- Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.
- Disclosure requirements include:
  - risk management and hedging policies;
  - hedge accounting policies and practices, and gains and losses from hedges;
  - terms and conditions of, and accounting policies for, all financial instruments;
  - information about exposure to interest rate risk;
  - information about exposure to credit risk;
  - fair values of all financial assets and financial liabilities, except those for which a reliable measure of fair value is not available; and
  - information about derecognition, collateral, impairment, defaults and breaches, and reclassifications.

Interpretations **IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments***

These are liabilities unless the co-op has the legal right not to redeem on demand.

Useful Deloitte publication **iGAAP 2007; Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained**

3rd edition (March 2007). Guidance on how to apply these complex standards, including illustrative examples, and interpretations. Information at www.iasplus.com/dttpubs/pubs.htm

IAS 33 *Earnings per Share*

Effective date Annual periods beginning on or after 1 January 2005.

Objective To prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. Focus of IAS 33 is on the denominator of the EPS calculation.

Summary

- Applies to publicly traded entities, entities in the process of issuing such shares, and any other entity voluntarily presenting EPS.
- EPS to be reported for profit or loss attributable to ordinary equity holders of the parent entity (face of the income statement), for profit or loss from continuing operations attributable to ordinary equity holders of the parent entity (face of the income statement), and for any discontinued operations (face of the income statement or the notes).
- Present basic and diluted EPS on the face of the income statement:
  - for each class of ordinary share that has a different right to share in profit for the period;
  - with equal prominence;
  - for all periods presented.
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Basic EPS calculation:
  - earnings numerator: should be after deduction of all expenses including tax and minority interests, and after deduction of preference dividends; and
  - denominator: weighted average number of shares outstanding during the period.
- Diluted EPS calculation:
  - earnings numerator: the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
  - denominator: should be adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and
  - anti-dilutive potential ordinary shares are to be excluded from the calculation.

Interpretations None.

Current Standards

IAS 34 *Interim Financial Reporting*

Effective date

Periods beginning on or after 1 January 1999.

Objective

To prescribe the minimum content of an interim financial report (IFR) and the recognition and measurement principles for an IFR.

Summary

- Applies only when the entity is required or elects to publish an IFR in accordance with IFRSs.
- Local regulators (not IAS 34) mandate
  - which entities should publish interim financial reports;
  - how frequently; and
  - how soon after the end of an interim period.
- An IFR is a complete or condensed set of financial statements for a period shorter than an entity's full financial year.
- Minimum components of an IFR are a condensed balance sheet, income statement, statement of changes in equity, cash flow statement, and selected explanatory notes.
- Prescribes the comparative periods for which interim financial statements are required to be presented.
- Materiality is based on interim financial data, not forecasted annual amounts.
- The notes in an IFR should provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as annual.
- Revenue and costs to be recognised when they occur, not anticipated or deferred.
- Change in accounting policy – restate previously reported interim periods.

Interpretations

IFRC 10 *Interim Financial Reporting and Impairment*

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.

Useful Deloitte publication

Interim financial reporting: A guide to IAS 34

Guidance on the requirements of the Standard (March 2006), model interim financial report and compliance checklist. Available for download at www.iasplus.com/dttpubs/pubs.htm

IAS 36 *Impairment of Assets*

Effective date

Applies to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004, and to all other assets prospectively for periods beginning on or after 31 March 2004.

Objective

To ensure that assets are carried at no more than their recoverable amount, and to prescribe how recoverable amount is calculated.

Summary

- IAS 36 applies to all assets except inventories (see IAS 2), assets arising from construction contracts (see IAS 11), deferred tax assets (see IAS 12), assets arising from employee benefits (see IAS 19), financial assets (see IAS 39), investment property measured at fair value (see IAS 40), and biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs (see IAS 41).
- Impairment loss to be recognised when the carrying amount of an asset exceeds its recoverable amount.
- Recognise impairment loss through income statement for assets carried at cost; treat as a revaluation decrease for assets carried at revalued amount.

- Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.
- Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
- Discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.
- At each balance sheet date, review assets to look for any indication that an asset may be impaired. If impairment is indicated, calculate recoverable amount.
- Goodwill and other intangibles with indefinite useful lives must be tested for impairment at least annually, and recoverable amount calculated.
- If it is not possible to determine the recoverable amount for the individual asset, then determine recoverable amount for the asset's cash-generating unit. The impairment test for goodwill should be performed at lowest level within the entity at which goodwill is monitored for internal management purposes, provided that the unit or group of units to which goodwill is allocated is not larger than a segment under IAS 14 (or an operating segment under IFRS 8).
- Reversal of prior years' impairment losses allowed in certain instances (prohibited for goodwill).

Current Standards

Interpretations

IFRIC 10 *Interim Financial Reporting and Impairment*

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.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Effective date

Periods beginning on or after 1 July 1999.

Objective

To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. IAS 37 thus aims to ensure that only genuine obligations are dealt with in the financial statements. Planned future expenditure, even where authorised by the board of directors or equivalent governing body, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

Summary

- Recognise a provision only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.
- Amount recognised as a provision is the best estimate of settlement amount at balance sheet date.
- Requires a review of provisions at each balance sheet date to adjust for changes in estimate.
- Utilise provisions only for original purposes.

- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration.
- Contingent liability arises when:
  - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
  - a present obligation may, but probably will not, require an outflow of resources; or
  - a sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).
- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent asset arises when the inflow of economic benefits is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only. If the realisation of income is virtually certain, the related asset is not a contingent asset and recognition is appropriate.

Interpretations

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Adjust the provision for changes in the amount or timing of future costs and for changes in the market-based discount rate.

IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds*

IFRIC 5 deals with the accounting, in the financial statements of the contributor, for interests in decommissioning, restoration and environmental rehabilitation funds established to fund some or all of the costs of decommissioning assets or to undertake environmental rehabilitation.

IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (WE & EE)*

IFRIC 6 gives guidance on the accounting for liabilities for waste management costs. Specifically, it considers the appropriate trigger or recognition of an obligation to contribute to the costs of disposing of waste equipment based on the entity's share of the market in a measurement period. The Interpretation concludes that the event that triggers liability recognition is participation in the market during a measurement period.

IAS 38 *Intangible Assets*

Effective date

Applies to intangible assets acquired in business combinations for which the agreement date on or after 31 March 2004 and to all other intangible assets prospectively for periods beginning on or after 31 March 2004.

Objective

To prescribe the accounting treatment for recognising, measuring and disclosing all intangible assets that are not dealt with specifically in another IFRS.

Summary

- Requires an entity to recognise an intangible asset, whether purchased or self-created, if:
  - it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
  - the cost of the asset can be measured reliably.
- Additional recognition criteria for internally-generated intangible assets.
- All research costs are charged to expense when incurred.
- Development costs are capitalised only after technical and commercial feasibility of the resulting product or service have been established.

- Intangible assets, including in-process research and development, acquired in a business combination should be recognised separately from goodwill if they arise as a result of contractual or legal rights or are separable from the business.
- Internally-generated goodwill, brands, mastheads, publishing titles, customer lists, start-up costs, training costs, advertising costs and relocation costs should not be recognised as assets.
- If an intangible item does not meet both the definition and the recognition criteria for an intangible asset, expenditure on the item is recognised as an expense when it is incurred, except if the cost is incurred as part of a business combination, in which case it should form part of the amount attributed to goodwill at the date of acquisition.
- For the purpose of accounting subsequent to initial acquisition, intangible assets are classified as:
  - indefinite life: no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. 'Indefinite' does not mean 'infinite'; and
  - finite life: a limited period of benefit to the entity.
- Intangible assets may be accounted for using a cost model or a revaluation model (permitted only in limited circumstances – see below). Under the cost model, assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
- If an intangible asset has a quoted market price in an active market (which is uncommon), an accounting policy choice of a revaluation model is permitted. Under the revaluation model, the asset is carried at revalued amount, which is fair value at revaluation date less any subsequent depreciation and any subsequent impairment losses.

- The cost (residual value is normally zero) of an intangible asset with a finite useful life is amortised over that life. Impairment testing under IAS 36 is required whenever there is an indication that the carrying amount exceeds the recoverable amount of the intangible asset.
- Intangible assets with indefinite useful lives are not amortised but must be tested for impairment at each reporting date. If recoverable amount is lower than the carrying amount, an impairment loss is recognised. The assessment must also consider whether the intangible continues to have an indefinite life.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued (unless there is no active market for a particular asset). Revaluation increases are credited to equity. Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss. When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not recycled through profit or loss.
- Normally, subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense. Only rarely can the asset recognition criteria be met.

Interpretations

SIC 32 *Intangible Assets – Web Site Costs*

Certain initial infrastructure development and graphic design costs incurred in web site development may be capitalised.

IAS 39 *Financial Instruments: Recognition and Measurement*

Effective date

Annual periods beginning on or after 1 January 2005, except the 2004 and 2005 revisions for the fair value option, cash flow hedge accounting of forecast intragroup transactions, and financial guarantee contracts are effective 1 January 2006.

Objective

To establish principles for recognising, derecognising and measuring financial assets and financial liabilities.

Summary

- All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, must be recognised on the balance sheet.
- Financial instruments are initially measured at fair value on date of acquisition or issue. Usually this is the same as cost, but sometimes an adjustment is required.
- An entity has an option of recognising normal purchases and sales of securities in the market place consistently either at trade date or settlement date. If settlement date accounting is used, IAS 39 requires recognition of certain value changes between trade and settlement dates.
- For the purpose of measuring a financial asset subsequent to initial recognition, IAS 39 classifies financial assets into four categories:
  1. Loans and receivables not held for trading.
  2. Held-to-maturity (HTM) investments, such as debt securities and mandatorily redeemable preferred shares, that the entity intends and is able to hold to maturity. If an entity sells any HTM investments (other than in exceptional circumstances), all of its other HTM investments must be reclassified as available-for-sale (category 4 below) for the current and next two financial reporting years.

Current Standards

  3. Financial assets measured at fair value through profit or loss, which includes those held for trading (short-term profit taking) and any other financial asset that the entity designates (the "fair value option"). Derivative assets are always in this category unless they are designated as hedging instruments.
  4. Available-for-sale financial assets (AFS) – all financial assets that do not fall into one of the other three categories. This includes all investments in equity instruments that are not measured at fair value through profit or loss. Additionally, an entity may designate any loans and receivables as AFS.
- The 2005 amendments restricted the use of the "fair value option" (3 above) to those financial instruments designated upon initial recognition into one of the following categories:
  1. Those that are classified as held for trading.
  2. Where the fair value option eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.
  3. Those that are part of a group of financial assets, financial liabilities, or both that are managed, and their performance is evaluated by management on a fair value basis in accordance with a documented risk management or investment strategy.
  4. Those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.
- Subsequent to initial recognition:
  – all financial assets in categories 1 and 2 above are carried at amortised cost subject to a test for impairment;

- all financial assets in category 3 above are carried at fair value, with value changes recognised in profit or loss; and
- all financial assets in category 4 above (AFS) are measured at fair value in the balance sheet, with value changes recognised in equity, subject to impairment testing. If the fair value of an AFS asset cannot be measured reliably, the asset is carried at cost.

- After acquisition, most financial liabilities are measured at original recorded amount less principal repayments and amortisation. Three categories of liabilities are measured at fair value with value changes recognised in profit or loss:
  - derivative liabilities;
  - liabilities held for trading (short sales); and
  - any liabilities that the entity designates, at issuance, to be measured at fair value through profit or loss (the "fair value option"). This designation has also been restricted during 2005 – see above.
- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The IAS 39 fair value hierarchy:
  - best is quoted market price in an active market;
  - otherwise use a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.
- IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party and, therefore, it should be removed from the balance sheet (derecognised). Derecognition is not permitted to the extent to which the

transferor has continuing involvement in an asset or a portion of an asset it has transferred.

- Hedge accounting (recognising the offsetting effects of fair value changes of both the hedging instrument and the hedged item in the same period's profit or loss) is permitted in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective. IAS 39 provides for three types of hedges:
  - fair value hedge: if an entity hedges a change in fair value of a recognised asset or liability or firm commitment, the change in fair values of both the hedging instrument and the hedged item are recognised in profit or loss when they occur;
  - cash flow hedge: if an entity hedges changes in the future cash flows relating to a recognised asset or liability or a probable forecast transaction, then the change in fair value of the hedging instrument is recognised directly in equity until such time as those future cash flows occur; and
  - hedge of a net investment in a foreign entity: this is treated as a cash flow hedge.
- A hedge of foreign currency risk in a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.
- Under the 2005 amendments: the foreign currency risk of a highly probable intragroup transaction is permitted to qualify as the hedged item in a cash flow hedge in the consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated financial statements; and
- If the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in

equity in accordance with the hedging rules in IAS 39 should be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects profit or loss.

- 2004 "macro hedging" amendment: a portfolio hedge of interest rate risk (hedging an amount rather than a specific asset or liability) can qualify as a fair value hedge.
- The 2005 amendments specify that financial guarantees are now in the scope of IAS 39 unless an entity has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. In this scenario the issuer may elect to apply either IAS 39 or IFRS 4. The election can be made on a contract by contract basis, but the election for each contract is irrevocable.
- All financial instruments disclosures are in IAS 32, not IAS 39 and, effective 2007, those disclosures are moved to IFRS 7.

Interpretations

IFRIC 9 *Reassessment of Embedded Derivatives*

Generally, determination of whether to account for an embedded derivative separately from the host contract is made when the entity first becomes a party to the host contract, and is not subsequently reassessed.

Similarly, a first-time adopter of IFRSs should make its assessment on 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.

IAS 39 guidance

Implementation guidance is provided in the IASB's annual bound volume of IFRSs.

Current Standards

Useful Deloitte publication

iGAAP 2007: Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained

3rd edition (March 2007). Guidance on how to apply these complex standards, including illustrative examples, and interpretations. Information at www.iasplus.com/dttpubs/pubs.htm

IAS 40 *Investment Property*

Effective date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting treatment for investment property and related disclosures.

Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both.
- IAS 40 does not apply to owner-occupied property or property that is being constructed or developed for future use as investment property, or property held for sale in the ordinary course of business.
- Permits an entity to choose either the fair value model or cost model.
  - fair value model: investment property is measured at fair value, and changes in fair value are recognised in the income statement; and
  - cost model: investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property must still be disclosed.
- The chosen measurement model must be applied to all of the entity's investment property.

- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property – and it must continue to be used until disposal of the property.
- Change from one model to the other is permitted if it will result in a more appropriate presentation (highly unlikely for change from fair value to cost model).
- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model of IAS 40. In this case, the lessee accounts for the lease as if it were a finance lease.

Interpretations None.

IAS 41 *Agriculture*

Effective date Periods beginning on or after 1 January 2003.

Objective To prescribe accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce.

Summary

- Measure all biological assets at fair value less expected point-of-sale costs at each balance sheet date, unless fair value cannot be measured reliably.
- Measure agricultural produce at fair value at the point of harvest less expected point-of-sale costs. Because harvested produce is a marketable commodity, there is no "measurement reliability" exception for produce.
- Change in fair value of biological assets during a period is reported in net profit or loss.

Current Standards

- Exception to fair value model for biological assets: if there is no active market at the time of recognition in the financial statements, and no other reliable measurement method, then apply the cost model to the specific biological asset only. The biological asset should be measured at depreciated cost less any accumulated impairment losses.
- Quoted market price in an active market generally represents the best measure of fair value of a biological asset or agricultural produce. If an active market does not exist, IAS 41 provides guidance for choosing another measurement basis.
- Fair value measurement stops at harvest. IAS 2 applies after harvest.

Interpretations None.

IFRIC 12 *Service Concession Arrangements*

Note: This Interpretation draws from several Standards and is included separately due to its complexity and significance.

Effective date Periods beginning on or after 1 January 2008.

Objective To address the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The Interpretation does not address the accounting for the government (grantor) side of such arrangements.

Summary

- For all arrangements falling within the scope of the IFRIC (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 specified, 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.

Current IASB agenda projects

Our **www.iasplus.com** website has the latest information about the IASB's and IFRIC's agenda projects and research topics, including summaries of decisions reached at each IASB and IFRIC meeting.

The following is a summary of the IASB's agenda projects at 31 March 2007.

* Convergence project with FASB

Topic	Projects	Status
Business Combinations – Phase II	• Application of the purchase method* • Non-controlling interest* • Non financial liabilities (amendment of IAS 37)	EDs on each of the three parts were issued in June 2005. Final Standard is expected second half of 2007.
Conceptual Framework*	The project is being addressed in eight phases: • Objectives and qualitative characteristics • Elements and recognition • Measurement • Reporting entity • Presentation and disclosure • Purpose and status of framework • Applicability to not-for-profit entities • Other issues, if necessary	DP on Phase A was issued in July 2006. DP for Phase B is planned for fourth quarter 2007. Roundtables on Phase C are planned for first half of 2007.

Topic	Projects	Status
Consolidation, including Special Purpose Entities*	The objective of the project is to provide more rigorous guidance on the concept of "control" as the basis for preparing consolidated financial statements.	DP is expected in first half of 2007. ED is expected first half of 2008. Final standard is expected 2008.
Convergence Issues – IFRSs and US GAAP*	IAS 12 *Income Taxes*	ED is expected fourth quarter of 2007. Final standard is expected in 2008.
	IAS 23 *Borrowing Costs*	ED was issued in May 2006. Revised standard issued March 2007.
	IAS 31 *Interests in Joint Ventures*	ED is expected in June 2007. Final standard is expected in 2008.
	Impairment	Staff research has begun.
Earnings per Share	Amendment of IAS 33	ED is expected in second half of 2007.
Fair Value Measurement Guidance*	To provide guidance to entities on how they should measure the fair value of assets and liabilities when required by other Standards.	DP wrap-around of FAS 157 Fair Value Measurement was issued in November 2006. ED is expected in 2008.
Insurance Contracts Phase II	The objective of the project is to take a fresh look at accounting for insurance contracts.	DP is expected in first half of 2007. ED is expected in 2008.

Agenda projects

Topic	Projects	Status
Financial Statement Presentation (Performance Reporting)*	In two phases: 1. Which Financial Statements and Comparative Information	1. ED was issued in March 2006. Final standard is expected in first half of 2007.
	2. Presentation of the face of the financial statements	2. DP is expected in first half of 2007. ED is expected 2008.
Government Grants and Emission Rights Trading	The objective of this project is to improve IAS 20. In addition in June 2005, IFRIC 3 Emission Rights was withdrawn – that issue is now part of this project.	Work has been deferred pending completion of the Non-financial Liabilities (IAS 37 Amendment) Project. The revised timetable has not yet been announced.
IFRS 1 Amendment	Cost of investment in a subsidiary in separate financial statements of parent	ED was issued in February 2007. Final amendment is expected in second half of 2007.
IFRS 2 Amendment	Vesting Conditions and Cancellations	ED was issued in February 2006. Final amendment is expected in second quarter of 2007.
Leases*	The objective of the project is to improve the accounting for leases by developing an approach that is more consistent with the conceptual framework definitions of assets and liabilities.	DP is planned for 2008.

Topic	Projects	Status
Post-retirement Benefits (including pensions)	The project includes: • A targeted series of improvements to IAS 19 to be completed within a four year period • A comprehensive review of the existing pension accounting model in conjunction with FASB.	Staff research has begun.
Puttable Instruments	The objective of the project is to identify criteria by which financial instruments puttable at a pro rata share of the fair value of the residual interest in the issuer would be appropriately classified as equity.	ED was issued in June 2006. Final standard is expected in first half of 2007.
Related Party Disclosure	The main objectives of the project are to address: • the requirements in IAS 24 for entities with significant state ownership when they transact with similar entities; and • a number of changes required in the detail of the definition of related party.	ED was issued in February 2007. Final standard is expected in fourth quarter of 2007.

Topic	Projects	Status
Revenue Recognition*	Project is addressing: • General principles for determining when revenue should be recognised in the financial statements. • Liability recognition, including guidance on whether an item meets the definition of a liability and, if so, the criteria for recognising liabilities in the financial statements. • The distinction between liabilities and equity.	DP is expected in second half of 2007. ED is expected in 2008.
(IFRS for) Small and Medium-sized Entities	The objective of the project is to develop an International Financial Reporting Standard for small and medium-sized entities	ED was issued in February 2007. Final standard is expected in first half of 2008.

IASB's active research topics

* Convergence project with FASB.

Topic	Status
Derecognition*	• Staff research paper being developed.
Financial Instruments: Comprehensive Project*	• Staff questionnaire on users' needs about fair values issued March 2006.
Intangible Assets*	• To develop a consistent approach to recognition and measurement of intangible assets, including purchased and internally generated intangible assets not related to a business combination. • Staff research paper being developed.
Extractive Industries	• To focus on the factors influencing the estimation of reserves and resources and the major reserve reporting codes and classification systems used in the extractive industries. • A group of national standard setters is developing a discussion paper.
Hyperinflationary Economies	• A group of national standard setters is developing a discussion paper.
Management Commentary	• In October 2005 the IASB published a discussion paper setting out a staff proposal that the IASB develop a global standard for a Management Commentary that would replace national regulatory requirements.
Measurement Objectives	• IASB invited comment on a discussion paper on measurement at initial recognition, which was prepared by the Canadian Accounting Standards Board in November 2005. • This is now part of the Measurement phase of the IASB's Conceptual Framework Project.

Interpretations

IFRIC Interpretations

The following Interpretations have been issued by the International Financial Reporting Interpretations Committee (IFRIC) starting in 2004 through 31 March 2007:

- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- IFRIC 3 – withdrawn
- IFRIC 4 *Determining whether an Arrangement contains a Lease*
- IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*

SIC Interpretations

The following Interpretations, issued by the Standing Interpretations Committee (SIC) from 1997-2001, remain in effect. All other SIC Interpretations were superseded when the improvements to IASs were adopted in December 2003:

- SIC 7 *Introduction of the Euro*
- SIC 10 *Government Assistance – No Specific Relation to Operating Activities*
- SIC 12 *Consolidation – Special Purpose Entities*
- SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- SIC 15 *Operating Leases – Incentives*

- SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
- SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- SIC 29 *Disclosure – Service Concession Arrangements*
- SIC 31 *Revenue – Barter Transactions Involving Advertising Services*
- SIC 32 *Intangible Assets – Website Costs*

Items not added to IFRIC agenda

We maintain on www.iasplus.com a list of over 100 issues that IFRIC considered adding to its agenda but decided not to do so. In each case, IFRIC announces its reason for not taking the issue onto its agenda. By their nature, those announcements provide helpful guidance in applying IFRSs. You will find the list at www.iasplus.com/ifric/notadded.htm

Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC), which replaced the Standing Interpretations Committee (SIC) in 2002. Interpretations are part of IASB's authoritative literature. Therefore, financial statements may not be described as complying with International Financial Reporting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation.

IFRIC due process

In February 2007, the Trustees of the IASC Foundation published the Due Process Handbook for the International Financial Reporting Interpretations Committee (IFRIC). A copy may be downloaded from the IASB's website www.iasb.org

IFRIC current agenda issues

Standard	Topic	Status
IAS 11 *Construction Contracts*	The Criteria for Combining and Segmenting Contracts	Active
IAS 17 *Leases*	Sales and Leasebacks with Repurchase Right	Active
	Contingent Rentals	Referred to IASB for inclusion in the Annual Improvements project
		IFRIC concluded that no diversity in practice
IAS 18 *Revenue*	Customer Loyalty Programmes	Draft Interpretation D20 issued
	Guidance on Identifying Agency Arrangements	Active
	Real Estate Sales	Active
IAS 19 *Employee Benefits*	Distinction between Curtailments and Past Service Cost	Active
	Multi-employer Plan Exemption	Draft Interpretation D6 issued. Inactive
	Changes in Employment Benefits and Actuarial Assumptions	Active
	Effect of Minimum Funding Requirements on Asset Ceiling	Draft Interpretation D19 issued
	Distinguishing between Defined Benefit and Defined Contribution Plans	Referred to IASB for consideration as part of its project to amend IAS 19

Standard	Topic	Status
IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Hedge of a Net Investment	Active
IAS 27 *Consolidated and Separate Financial Statements*	Control by a Fiduciary	The IASB is considering this issue as part of its Consolidation project
IAS 38 *Intangible Assets*	Catalogues and Other Advertising Costs	Active
IAS 39 *Financial Instruments Recognition and Measurement*	Identification of a Portion of an Exposure Eligible for Hedge Accounting	Active
	Securitisations – Derecognition of Groups of Financial Assets	Active
IAS 41 *Agriculture*	Fair Value	Referred to IASB for inclusion in Annual Improvements project

Deloitte's IFRS e-learning

Deloitte is pleased to make available, in the public interest and without charge, our e-learning training materials for IFRSs. Modules are available for virtually all IASs/IFRSs – in the case of IASs 32 and 39 there are three modules.

Each module involves downloading a 4mb to 6mb zip file and extracting the enclosed files and directory structure into a directory on your computer.

Before downloading, you will be asked to read and accept a disclaimer notice. The e-learning modules may be used and distributed freely by those registering with the site, without alteration from the original form and subject to the terms of the Deloitte copyright over the material.

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Some national standard-setting bodies

Australian Accounting Standards Board	www.aasb.com.au
Canadian Accounting Standards Board	www.acsbcanada.org
China Accounting Standards Committee	www.casc.gov.cn/internet/internet/en.html
Conseil National de la Comptabilité (France)	www.minefi.gouv.fr/directions_services/CNCompta/
German Accounting Standards Board	www.drsc.de
Japan Accounting Standards Board	www.asb.or.jp/index_e.php
Korea Accounting Standards Board	www.kasb.or.kr/enghome.nsf
New Zealand Financial Reporting Standards Board	www.icanz.co.nz
Accounting Standards Board (United Kingdom)	www.asb.org.uk
Financial Accounting Standards Board (USA)	www.fasb.org

International Auditing and Assurance Standards Board

www.ifac.org/iaasb

International Federation of Accountants

www.ifac.org

International Organization of Securities Commissions

www.iosco.org

Our www.iasplus.com website has a page with links to nearly 200 accounting-related websites.

Deloitte IFRS resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist in implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
Deloitte's IFRS e-Learning modules	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at **www.iasplus.com**
IAS Plus newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit **www.iasplus.com**
Presentation and disclosure checklist	Checklist incorporating all of the presentation and disclosure requirements of Standards.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2007 Financial Instruments: IAS 32, IAS 39 and IFRS7 Explained	3rd edition (March 2007). Guidance on how to apply these complex Standards, including illustrative examples and interpretations.
First-time adoption: A guide to IFRS 1	Application guidance for the "stable platform" Standards effective in 2005.
Share-based payment: A guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business combinations: A guide to IFRS 3	Supplements the IASB's own guidance for applying this Standard.
Interim financial reporting: A guide to IAS 34	Guidance on applying the interim reporting standard, including a model interim financial report and an IAS 34 compliance checklist.

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