



On the Horizon for IFRS

June 6, 2008

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All decisions reached at IFRIC meetings are tentative and may be changed or modified at future meetings. Committee decisions become final only after completion of a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The International Financial Reporting Interpretations Committee has issued the May 2008 [IFRIC Update](#), which summarizes the Committee's meeting in London on May 8, 2008. Highlights of the meeting are discussed below.

IFRIC completes redeliberations of draft interpretation on real estate sales

The IFRIC completed its redeliberations of draft interpretation D21, *Real Estate Sales* (D21 or draft interpretation). The Committee discussed the staff's proposed revisions to D21, which incorporated the Committee's input from the January and March 2008 meetings. Previously, the IFRIC had asked the staff to clarify the interaction between IAS 11, *Construction Contracts* and IAS 18, *Revenue* through a flow chart. The IFRIC generally supported the flow chart and the analysis proposed by the staff. The IFRIC

concluded that the revised draft interpretation, together with the flow chart and the illustrative examples

- Clarifies the definition of a construction contract and the articulation between IAS 11 and IAS 18
- Provides guidance on how to account for revenue when an agreement for the construction of real estate falls within the scope of IAS 18

Also, in accordance with the IFRIC Due Process Handbook, the Committee concluded that the changes did not require re-exposure of the draft interpretation.

The IFRIC voted to confirm the consensus and asked the staff to present the final draft interpretation to the IASB for ratification at the June 2008 IASB meeting, with the expectation that it will be issued by the end of that month.

Clarification of the scope

At the May 2008 meeting, the Committee decided to revise the scope of the draft interpretation as follows:

- To clarify that the final interpretation would apply to *agreements for the construction of real estate* instead of to *real estate sales*. The issue of whether an agreement is within the scope of IAS 11 or IAS 18 arises only for agreements that include construction activities and, accordingly, the final interpretation's title will be revised to *Agreements for the Construction of Real Estate*.
- To replace the terms *developers and sellers* with the term *entities that undertake the construction of real estate*. The focus would be on the entity that either directly or indirectly undertakes construction activities.

Application of IAS 18

If the buyer has the ability to specify the main elements of the structural design (whether they elect to do so or not), the contract is a construction contract and IAS 11 would apply. If the buyer has only a limited ability to influence the design of the real estate, the contract would not be a construction contract. A buyer would have limited influence when it may select certain elements from a range of options provided by the entity. In that case, the agreement would be within the scope of IAS 18. As a result, the entity undertaking construction would have to determine whether the agreement is for the rendering of services or for the sale of goods:

- *Rendering of services*: If an entity is not required to acquire and supply construction materials, the agreement may only be for the rendering of services and the revenue recognition criteria in paragraph 20 of IAS 18 would apply.
- *Sale of goods*: If an entity is required to provide construction materials as well as services in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is for the sale of goods and the revenue recognition criteria in paragraph 14 of IAS 18 would apply.

For those agreements that are sales of goods under paragraph 14 of IAS 18, the IFRIC identified two types of agreements for the sale of real estate:

- *Agreements in which the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses (continuous transfer)*: If all of the criteria in paragraph 14 of IAS 18 are met continuously, an entity would recognize revenue by reference to the stage of completion using the percentage of completion method. The IFRIC noted that agreements of this type may

not be frequently encountered, but some respondents requested that they be addressed.

- *Agreements in which the entity transfers to the buyer control and the significant risks and rewards of ownership of the completed real estate in its entirety at a single point of time (for example, at completion, upon delivery, or after delivery):* The entity would recognize revenue only at the point when all of the criteria in paragraph 14 of IAS 18 are satisfied.

The Committee also discussed agreements for the delivery of multiple goods in which the entity transfers to the buyer control and the significant risks and rewards of ownership of separately identifiable goods at different points in time (for example, at each delivery). The IFRIC concluded that these agreements are in substance agreements in which the risks and rewards are transferred at a single point in time with multiple deliveries. Since control and the risks and rewards of the work in process only transfer when each completed item is delivered and not as construction progresses, the use of the percentage of completion method would not be appropriate.

The Committee decided that it would permit application by analogy in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Identification of a component for the sale of land

The IFRIC concluded that an agreement would be first analyzed to determine any separately identifiable components as discussed in paragraph 13 of IAS 18. Based upon facts and circumstances, the entity may or may not conclude that a component for the sale of land is separately identifiable from the component for the construction of real estate. If the land sale is a separate component, revenue would be recognized on the land separately from the construction or other components.

Disclosures

For *continuous transfer* agreements that are accounted for under paragraph 14 of IAS 18, the Committee indicated that the entity that undertakes the construction of real estate would need to disclose information about its accounting policies, significant judgments, and major sources of estimation uncertainty in accordance with IAS 1, *Presentation of Financial Statements*. The IFRIC decided that the final interpretation would require specific disclosures similar to those of paragraphs 39 and 40 of IAS 11 for such agreements in order to satisfy the requirements of IAS 1.

Transition guidance and effective date

The Committee indicated that the major change in practice would be a shift from recognizing revenue using the percentage of completion method to recognizing revenue at a single point of time (e.g. at completion, upon delivery, or after delivery). The agreements affected by the revisions would generally be those accounted for in accordance with IAS 11 that do not meet the construction contract definition and do not result in a *continuous transfer*. Accordingly, the Committee concluded that a six-month implementation lead time would be sufficient and decided to recommend that the final interpretation would be effective for accounting periods beginning on or after January 1, 2009 with retrospective application.

See the [IFRIC project summary](#) for more information on this project.

IFRIC completes redeliberations of draft interpretation on hedges of a net investment in a foreign operation

The IFRIC completed its redeliberations of the draft interpretation D22, *Hedges of a Net Investment in a Foreign Operation*. The Committee discussed the staff's proposed changes resulting from previous meetings in January and March 2008. The major changes were to

- Clarify the amount of profit or loss to be reclassified (recycled) from the foreign currency translation reserve to profit and loss in the parent's consolidated financial statements (with respect to both the hedging instrument and the net investment in that foreign operation) on disposal of a hedged foreign operation
- Clarify the transitional requirements
- Replace all of the illustrative examples with an application guidance appendix

The IFRIC discussed the wording of the draft interpretation and the application guidance with respect to the designation of the hedged risk and the designation of hedges of more than one foreign operation. Based upon the proposal of some Committee members, the staff will consider whether to include an example illustrating the accounting for the disposal of a foreign operation in the final draft.

The IFRIC approved the staff's proposals for drafting changes. The Committee concluded that the changes did not require re-exposure of the draft interpretation. The IFRIC voted to confirm the consensus and asked the staff to present the final draft interpretation to the IASB for ratification at the June 2008 IASB meeting. The staff's expectation is that the final interpretation will be issued in June and will become effective for annual periods beginning on or after October 1, 2008. Earlier application will be permitted.

See the [IFRIC project summary](#) for more information on this project.

Comment letters discussed on group cash-settled share-based payment transactions

In December 2007, the IASB issued the exposure draft, *Group Cash-Settled Share-Based Payment Transactions*, which proposes amendments to IFRS 2, *Share-*

Based Payment and IFRIC 11, *IFRS 2—Group and Treasury Share Transactions*. The exposure draft addresses how an entity that receives goods and services from its suppliers (including employees), would account for certain cash-settled share-based arrangements when another entity (e.g. a parent or another entity in the same group) has the obligation to make the required payments to its suppliers. The IASB received 44 comment letters.

Many of the respondents agreed that the exposure draft's principal objective was to align the accounting for share-based transactions of similar economic substance (equity-settled or cash-settled) and to remove incentives to structure arrangements to be outside the scope of IFRS 2. However, many of the respondents either expressed concern about the scope or disagreed with certain aspects of the proposed measurement guidance.

Because the ED was the result of a referral to the IASB from IFRIC, over the next two meetings the IFRIC will redeliberate the issues raised by commenters. The IASB will discuss IFRIC's conclusions at its October 2008 meeting.

At the May 2008 IFRIC meeting, the staff presented an analysis of the comments received and after discussing the major areas of concern with respect to the proposed scope and measurement, the IFRIC agreed with the staff's recommendations for the following issues to be redeliberated:

- Lack of clarity and inconsistency in scope for arrangements with similar substance among IFRSs
- Inconsistency of the scope with the IFRS 2 definitions of share-based payments

- Classification and measurement of these arrangements as cash-settled share-based payments when the entity does not have any obligation to make a payment or issue shares
- Attribution of the issuing entity's liability and remeasurement by the reporting entity in the absence of existing concepts in IFRS and the risk of unintended analogy to other transactions

In addition, the Committee approved the proposed project timetable for redeliberations.

See the [IFRIC project summary](#) for more information on this project.

Staff presents project plan on rate regulated liabilities

In January 2008, the Committee was asked to consider whether regulated entities could or should recognize a liability (or an asset) resulting from price regulation by regulatory bodies or governments. In some jurisdictions (including the U.S. under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*), excess profits (or costs) are deferred when they will be returned through future price decreases (or increases). IFRIC had considered the issue of recognizing regulatory assets during its project on service concessions. At that time, IFRIC concluded that assets and liabilities, whether labeled *regulatory* or not, should be recognized in accordance with the IASB's Framework and other relevant IFRS.

At the May 2008 meeting, the IFRIC discussed and approved the staff's project plan for recommending the addition of this issue to the agenda. The Committee will consider the scope of the issue at its July 2008 meeting to determine whether a consensus can be reached on a timely basis and therefore whether the issue should be added to the agenda.

Agenda decisions

IFRIC agenda decisions are not Interpretations which are determined only after deliberation and due process, including a formal vote. IFRIC Interpretations become final only when approved by the IASB.

At the March 2008 meeting, the IFRIC had tentatively decided not to add two issues to the agenda at that time and to reconsider them at the May 2008 meeting. The Committee discussed these issues at the May 2008 meeting.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets – Deposits on returnable containers

The Committee was asked to provide guidance on whether the obligation to refund deposits on returnable containers should be accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Entities in certain industries distribute their products in returnable containers, collect a deposit for each container delivered, and record an obligation to refund the deposit when the containers are returned.

The Committee analyzed two circumstances: where the container is sold to the customer together with the product and is derecognized by the entity, and where the container remains the property of the entity that distributes the product.

- *The containers are derecognized as part of the sale transaction:* The obligation would be an exchange of cash (the deposit) for the containers (non-financial assets). Because it involves the exchange of a non-financial item, it does not meet the definition of a financial instrument. The return of the containers is at the option of the customer. As part of the sale transaction, its cost should be recognized in accordance with paragraph 19 of IAS 18, *Revenue*.

- *If the containers are not derecognized as part of the sale transaction:* The customer's only asset is its right to the refund. The obligation meets the definition of a financial instrument under IAS 32, *Financial Instruments: Presentation* and accordingly, is within the scope of paragraph 49 of IAS 39.

The Committee indicated that divergence on this issue was unlikely to be significant and decided not to add the issue to the agenda.

IAS 19, Employee Benefits – Settlements

The Committee was asked to clarify whether certain defined benefit plan payments are settlements as defined in IAS 19, *Employee Benefits*. The issue results from an existing plan giving its members the option to choose to receive a lump sum payment at retirement instead of ongoing payments. IFRIC indicated that events that are considered within the actuarial assumptions underlying the measurement of the defined benefit obligation are not accounted for as settlements in accordance with IAS 19.

The Committee indicated that there was little diversity in practice on this issue and decided not to add the issue to the agenda.

Tentative agenda decision

After reviewing the following issue, the Committee tentatively decided not to add it to the agenda at this time. The issue will be reconsidered at the July 2008 meeting.

IAS 39, Financial Instruments: Recognition and Measurement – Applying the effective interest rate method

The Committee was asked to provide guidance on the application of the effective interest rate method to a financial instrument with cash flows that are linked to changes in an inflation index. Three possible approaches were discussed:

- *Paragraph AG7 of IAS 39:* which applies to floating rate financial instruments whose estimated cash flows are revised to reflect movements in market rates of interest thus altering the effective interest rate
- *Paragraph AG8 of IAS 39:* which applies to changes in estimated future cash flows other than those that are addressed in AG7 thus altering the carrying amount of the instrument
- Provisions of IAS 29, *Financial Reporting in Hyperinflationary Economies:* which applies only to the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy

The Committee indicated that application guidance already exists in paragraphs AG6–AG8 of IAS 39 and that judgment is required in applying paragraphs AG7 and AG8 to this issue.

Work in progress

The Committee reviewed a summary of the remaining outstanding issues as follows:

- It is the staff's expectation that the Committee will discuss an analysis of the comments received on D23, *Non-cash Asset Distributions to Owners* and D24, *Customer Contributions* at the July 2008 meeting and begin redeliberations at that time.
- A request for guidance had been received with respect to the accounting for trailing commissions and is being analyzed by the staff to determine whether it should be added to the agenda.
- The IFRIC has recommended that the IASB consider an issue for the annual improvements project with respect to how expenditures on

unrecognised assets should be classified in the statement of cash flows and is awaiting a decision by the IASB.

- An agenda issue relating to derecognition is not yet active.

Future Committee meeting

The next Committee meeting is July 10-11, 2008.

IASB forms expert advisory panel on valuation of financial instruments in inactive markets

In April 2008, the [Financial Stability Forum](#) (FSF) issued a report, *Enhancing Market and Institutional Resilience*, to the G7 Ministers and Central Bank governors. The report analyzes the causes and weaknesses that have led to the current financial market turmoil and makes recommendations for increasing the resilience of markets in the future. At the May 2008 IASB meeting, in response to the recommendations of the FSF, the IASB decided to form an expert advisory panel to discuss the valuation of financial instruments in inactive markets. On June 3, 2008, the IASB [announced](#) the formation of the panel which will have its first meeting on June 13, 2008. A summary of the expert advisory panel's meeting will be presented to the IASB at its June 2008 meeting.

The expert advisory panel's objective is to assist the IASB in:

- Reviewing best practices in the area of valuation techniques
- Formulating any additional practice guidance on valuation methods for financial instruments and related disclosures when markets are no longer active

The expert advisory panel is comprised of experts from preparers and users of financial statements, as well as regulators and auditors. The IASB will utilize the

discussions of the expert advisory panel for its work on financial instruments and fair value measurement.

IOSCO Technical Committee Task Force issues final report on the subprime crisis

On May 28, 2008, the International Organization of Securities Commissions (IOSCO) [announced](#) the issuance of the [final report](#) of its Technical Committee's Task Force on the Subprime Crisis which includes

- An analysis of the underlying causes of the subprime crisis
- The implications for international capital markets
- Recommendations that address the issues facing securities regulators

The final report also includes the Technical Committee's recommendations for future IOSCO work to counter three of the issues facing securities regulators:

- *Issuer transparency and investor due diligence.* The Task Force indicated that the recent market turmoil had relatively less effect on publicly traded structured finance products in some markets. In addition, the Task Force found that secondary trading of structured finance products, for a variety of reasons, was not transparent.
- *Firm risk management and prudential supervision.* The Task Force indicated that many institutional investors and investment banking firms had inadequate risk modeling and internal controls in place to understand and address the risks they were assuming when buying many types of structured finance products, relied heavily (or even exclusively) on external credit ratings for their risk analysis, and, even when adequately capitalized, had inadequate balance sheet liquidity.

- *Valuation and accounting issues:* The Task Force indicated that concerns had been raised with respect to the role that fair value accounting principles have played in providing adequate information to investors and regulators about the strength of financial firms facing illiquid market conditions. The Task Force found that some financial firms appeared to have inadequate human and technological resources to model their financial positions using fair value accounting principles under illiquid market conditions.

AICPA issues IFRS primer for audit committees

The AICPA has issued a new publication entitled [IFRS Primer for Audit Committees](#) which provides background information on IFRS, audit committee considerations, and recommended questions that audit committees should review with management.

IASC Foundation issues 2007 annual report

The International Accounting Standards Committee (IASC) Foundation issued its [Annual Report 2007](#), which includes the reports of the Chairman of the IASC Foundation Trustees and the IASB Chairman. The annual report also includes the audited financial statements of IASC.

IFRS reference materials

GTUS publications

Comparison between U.S. GAAP and IFRS

The GTUS [comparison document](#) highlights the major areas of similarity and differences between U.S. GAAP and IFRS and is available on the [Grant Thornton IFRS Resource Center](#).

GTI publications

IFRS News

GTI IFRS News, a new quarterly update, offers a high level summary of the more significant developments in IFRS along with insights into topical issues and comments and views from the GTI IFRS Team.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS 3 guide on identifying and valuing intangibles in a business combination

GTI issued a publication entitled *Intangible Assets in a Business Combination – Identifying and valuing intangibles under IFRS 3* (the Intangible Assets Guide). The Intangible Assets Guide includes practical guidance on the detection of intangible assets in a business combination and explains how they may be valued. An overview of IFRS 3 summarizes the main aspects of accounting for business combinations and includes some practical points to consider.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS 5 guide on non-current assets held for sale and discontinued operations

GTI issued a publication entitled *Non-current Assets Held For Sale and Discontinued Operations – Challenges in Applying IFRS 5* (the IFRS 5 Guide). The IFRS 5 Guide explains key implementation issues and common approaches to practical application and also includes several examples illustrating disclosure and presentation requirements.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS Top 20 Tracker

GTI issued a publication entitled *IFRS Top 20 Tracker* (the Tracker). The Tracker takes management through twenty important disclosure and accounting issues which have been identified as causing problems in practice when preparing financial statements under IFRS. These twenty issues have been identified based on the experience of member firms within GTI in assisting companies that apply or move to IFRS.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

GTUS website

The [Grant Thornton IFRS Resource Center](#) includes various sections on IFRS.

IASB

IASB projects, meetings, and effective dates

See the [IASB website](#) for information on projects, meetings, and effective dates.

International Financial Reporting Standards 2008 Bound Volume

The IASB issued its *International Financial Reporting Standards (IFRSs)* 2008 Bound Volume. The 2008 edition includes the latest version of IFRSs, IASs, and

IFRIC and SIC Interpretations as approved for issue by the IASB at January 1, 2008. The 2008 bound volume may be purchased through the [IASB website](#).

Revised reference guide by the IASB and IASC Foundation

The IASB and the IASC Foundation issued a [revised reference guide](#), *IASB and the IASC Foundation: Who we are and what we do*.

AICPA

AICPA launches a new IFRS website

The AICPA recently launched a new IFRS website at www.IFRS.com. The website includes informational videos, explanatory material about IFRS, training programs, and links to various resources. Included on the new website is a [background document](#) on IFRS entitled, *International Financial Reporting Standards (IFRS) – An AICPA Background* and an IFRS [frequently asked questions document](#).