



On the Horizon for IFRS

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IFRIC issues November 2008 meeting highlights

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 November 2008 [IFRIC Update](#), which summarizes the Committee's meeting in London on November 6, 2008. Highlights of the meeting are discussed below.

IFRIC completes redeliberations of draft interpretation on customer contributions

The staff revised Draft Interpretation D24, *Customer Contributions* (the draft interpretation or D24), based upon tentative decisions that had been reached by the IFRIC in July and September 2008. At its meeting in November 2008, the IFRIC completed its redeliberations of the revised draft interpretation and reached the following decisions.

Title of the interpretation

In order to clarify the proposed terminology, the IFRIC decided to use the term *transfer* instead of *contribution* and to rename the draft interpretation, *Transfers of Assets from Customers*.

Who controls the asset?

The IFRIC had previously decided to clarify the proposed guidance with respect to who controls the asset. At its November 2008 meeting, the IFRIC supported the wording proposed by the staff and asked the staff to amend the draft interpretation as follows:

- When an entity receives a transfer from a customer in the form of an item of property, plant and equipment, it should assess whether the transferred

item meets the definition of an asset set out in the *Framework*.

Paragraph 49(a) of the *Framework* states that “an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.” In most circumstances, the entity obtains the right of ownership of the transferred item of property, plant and equipment. However, in determining the existence of an asset, the right of ownership is not essential. Therefore, if the customer continues to control the transferred item, the asset definition would not be met despite the transfer.

The entity that controls the transferred item of property, plant and equipment can generally deal with the transferred item as it pleases. For example, the entity having control of an asset can exchange it for other assets, employ it to produce goods or services, charge a price for others to use it, use it to settle liabilities, hold it, or distribute it to owners.

Revenue recognition

The IFRIC considered the guidance included in the revised draft interpretation that would help identify whether one or two services are provided in exchange for the transferred item of property, plant and equipment in accordance with paragraph 13 of IAS 18, *Revenue*. The IFRIC generally agreed with the staff's proposals; however, the IFRIC asked the staff to delete the following indicators:

- *Connection service could be sold separately*: This is not a relevant indicator that this service is a component of the transaction because services can generally be sold separately.
- *Customers have the ability to choose to receive goods or services from suppliers other than the entity*: This is not a relevant indicator that the provision of

ongoing access to a supply of goods or services arises from the terms of the entity's operating license (or other regulation) rather than from the arrangement.

Other clarifications

The IFRIC asked the staff to clarify the definition of a customer and the nature of the various services that might be provided by multiple parties to the arrangement. For example

- If customers choose to receive electricity from a supplier other than the network company responsible for its transmission, the draft interpretation applies to the network transmission company that receives the property, plant and equipment from the customer. The service received is the use of the network to access the supply of electricity.
- When an electricity substation is transferred by a property developer on behalf of residential units it is constructing, it is the homeowners that will eventually use the network to access the supply and use the electricity, although they did not initially transfer the substation. The draft interpretation would clarify that the property developer would be the customer transferring the asset.

Vote to confirm consensus and transition

Since the IFRIC had made significant changes to the draft interpretation with respect to revenue recognition, they decided that the near-final draft interpretation should be posted on the IASB website for a longer than normal period to give constituents an opportunity to comment on it.

The IFRIC voted and confirmed the consensus subject to its final review of drafting changes.

The IFRIC decided that the draft interpretation would be applied prospectively to transfers of assets from customers received on or after three months from the date of publication of the final interpretation.

Note: The IASB approved the final draft interpretation at its January 2009 meeting and on January 29, 2009 issued IFRIC 18, *Transfers of Assets from Customers*. See summary below.

Committee discusses compliance costs for REACH

The Committee had received a request to add an issue to its agenda to provide guidance on the treatment of costs incurred to comply with the requirements of the European Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and in July 2008, the Committee had agreed with the staff's recommendation to tentatively add this issue to its agenda.

At its November 2008 meeting, the Committee discussed whether this issue meets the criteria in order to be added to the agenda but did not reach a decision. The Committee asked the staff to identify the rights an entity acquires under REACH and the characteristics of REACH compliance costs that require an interpretation so that the Committee will be able to determine whether it can specify an appropriate scope for this proposed project.

Customer-related intangible assets discussed

The Committee received a request to provide guidance on the circumstances in which a non-contractual customer relationship arises in a business combination. IFRS 3, *Business Combinations* (as revised in 2008) requires an acquirer to recognize the identifiable intangible assets of the acquiree separately from goodwill. An intangible asset is identifiable if it

meets either the contractual-legal criterion or the separable criterion in IAS 38, *Intangible Assets*. Contractual customer relationships are always recognized separately from goodwill as they meet the contractual-legal criterion. However, non-contractual customer relationships are recognized separately from goodwill only if they meet the separable criterion.

The Committee noted the following:

- The IFRS Glossary defines the term *contract*
- Paragraphs B31– B40 in the application guidance of IFRS 3 provide guidance on the recognition of intangible assets and the different criteria related to whether they are established based on a contract
- Paragraph IE28 in the illustrative examples accompanying IFRS 3 provides indicators for identifying the existence of a customer relationship between an entity and its customer and states that a customer relationship “may also arise through means other than contracts, such as through regular contact by sales or service representatives”

The Committee concluded that how the relationship was established helps to identify whether a customer relationship exists but should not be the primary basis for determining whether the acquirer recognizes an intangible asset. The Committee indicated that the criteria in paragraph IE28 might be more relevant for recognition. The existence of contractual relationships and information about a customer’s prior purchases should not determine whether a customer relationship is recognized, but, if recognized, would be important inputs in valuing the intangible asset.

Since there is explicit contrary guidance in IFRS 3, the Committee decided that developing interpretative guidance reflecting its conclusion would not be possible. The IFRIC decided that the widespread confusion in practice on this

issue would be best resolved by referring it to the IASB and the FASB with a recommendation to review and amend IFRS 3 by:

- Removing the distinction between *contractual* and *non-contractual* customer-related intangible assets recognized in a business combination
- Reviewing the indicators that identify the existence of a customer relationship in paragraph IE28 and including them in IFRS 3

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

IAS 39, Financial Instruments: Recognition and Measurement – Valuation of restricted securities

The Committee received a request for guidance on whether a discount must be applied to the quoted market price when establishing the fair value of a security quoted in an active market when there is a contractual, governmental, or other legally enforceable restriction that prevents the sale of the security for a specified period. The request asked for guidance with respect to situations in which the restriction applied to the current holder of the security and would not transfer to another entity.

The Committee decided not to add this issue to the agenda because in this case any guidance it could provide would be implementation guidance, not

interpretative guidance. The IASB should provide any necessary guidance in its fair value measurement project.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Stable workforce assumption

The Committee received a request for guidance regarding the economic benefit available in the form of reductions in future contributions when there is a minimum funding requirement. IAS 19, *Employee Benefits*, limits the asset that an entity can recognize for a surplus in a defined benefit pension plan to the present value of the economic benefit available from both refunds from the plan and reductions in future contributions to the plan. In determining the future service cost, IFRIC 14 requires that the economic benefit available should be determined assuming a stable workforce unless the entity is demonstrably committed at the end of the reporting period to reduce the number of covered plan employees.

The request indicates that there could be circumstances where the stable workforce assumption understates the economic benefits available, affecting both the statement of financial position and profit or loss. Plan contributions that are regarded under IFRIC 14 as providing no economic benefits are recognized as an expense, not an asset. Therefore, an entity could affect its reported earnings by choosing the timing and the level of such contributions.

The Committee decided not to add this issue to the agenda since the IFRIC 14 requirements with respect to the assumption of a stable workforce are clear and had been discussed at length during the development of the interpretation. In addition, the request for guidance did not provide any new information to be considered.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Voluntary prepaid contributions under a minimum funding requirement to the agenda

As a result of comment letters received on the issue related to IFRIC 14 (see previous summary in Agenda Decisions), the IFRIC noted that there are other requirements in IFRIC 14 that may produce unintended consequences in how to treat voluntary prepaid contributions under a minimum funding requirement. As required by IFRIC 14.22 an entity should include certain expected cash outflows in the assessment of whether there is an asset at the reporting date. In some cases, the inclusion of these cash flows implies there is a liability at the reporting date when there is not. The IFRIC reached a decision to add this issue to its agenda and expects to propose amendments to IFRIC 14.22.

Tentative agenda decisions

After reviewing the following issues, the Committee made the following tentative decisions. The issues will be reconsidered at the March 2009 meeting.

IAS 28, Investments in Associates – Potential effect of IFRS 3, Business Combinations (as revised in 2008) and IAS 27, Consolidated and Separate Financial Statements (as amended in 2008) on equity method accounting

The staff noted that the FASB's Emerging Issues Task Force (EITF) recently added to its agenda, EITF Issue 08-6, "Equity Method Investment Accounting Considerations," which addresses several issues resulting from the recently concluded joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interests. That project resulted in the issuance of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and FASB Statement 141(R), *Business Combinations* and FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*.

EITF 08-6 addresses the following issues:

- How to determine the initial carrying value of an equity method investment
- How to account for an issue of shares by an equity method investee
- How to perform an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment
- How to account for a change in an investment from the equity method to the cost method

The IFRIC asked the staff to perform additional research and analysis of the first two issues for consideration at a future IFRIC meeting.

The IFRIC noted that IAS 28 provides explicit guidance on the last two issues and therefore, does not expect divergence in practice. The IFRIC decided not to add these issues to the agenda.

IAS 32, Financial Instruments: Presentation – Classification of puttable and perpetual instruments

The Committee received a request for guidance on the classification of an entity's puttable instruments that are subordinate to all other classes of instruments when the entity also has perpetual instruments that meet the definition of equity instruments in accordance with IAS 32.11 and .16.

The Committee noted the following:

- A financial instrument is first classified as a liability or equity instrument in accordance with the general requirements of IAS 32. That classification is not affected by the existence of puttable instruments.
- Second, if a financial instrument meets the definition of a financial liability because it is puttable to the issuer, the entity considers the conditions in IAS 32 paragraphs 16A and 16B to determine whether it should be classified

as equity. Accordingly, the IFRIC noted that IAS 32 does not preclude the existence of several classes of equity.

The Committee also noted that IAS 32.16A(c) applies only to “instruments in the class of instruments that is subordinate to all other classes of instruments.” Paragraph 16A(b) of IAS 32 specifies that the level of an instrument's subordination is determined by its priority in liquidation. Accordingly, the existence of the puttable feature does not of itself imply that the puttable instruments are less subordinate than the perpetual instruments.

The Committee decided not to add this issue to the agenda because it did not expect significant diversity in practice.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets/IAS 38, Intangible Assets – Regulatory assets and liabilities

The Committee received a request to consider whether regulated entities could or should recognize a liability or an asset as a result of rate regulation by regulatory bodies or governments.

The Committee discussed this issue and noted the following:

- Rate regulation is widespread and significantly affects the economic environment of regulated entities
- Divergence does not seem to be significant in practice
- Resolving the issue would require interpreting the definitions of assets and liabilities described in the Framework and their interaction with one or more IFRS
- Although the issue is not specifically being considered in an active IASB project, it relates to more than one active IASB project

The Committee decided not to add this issue to the agenda since the agenda criteria were not met and it did not expect significant diversity in practice.

IAS 39, Financial Instruments: Recognition and Measurement – Derecognition

The Committee had previously been asked to provide guidance for certain derecognition tests included in IAS 39. At its meeting in January 2007, the IFRIC decided to add a limited scope project on derecognition to its agenda; however, the project had been inactive awaiting the availability of staff resources.

The IASB has since accelerated its project to develop a replacement for the sections of IAS 39 that would have been interpreted by the IFRIC. The IASB expects to issue a new standard on derecognition no later than 2010. Therefore the IFRIC decided to remove this issue from its agenda.

IAS 39, Financial Instruments: Recognition and Measurement – Fair value measurements of financial instruments in inactive markets: determining the discount rate

The Committee received an external proposal that discussed how a discount rate should be determined when fair value is established using a valuation technique. The proposal noted that both the credit spread and liquidity spread components of the discount rate might not be observable in inactive markets. The proposal included the following:

- The liquidity spread would not exceed that of a non-tradable loan or receivable which is comparable to the security being measured
- A model-based valuation would aim to calculate the value of a financial instrument that market participants would agree on if they were acting in a rational manner

- Market behavior that is clearly not indicative of fair value would be eliminated from the valuation

The Committee noted that using a discounted cash flow model in measuring fair value might be appropriate if there is no active market. However, the IFRIC also noted that IAS 39 states that the objective of using a valuation technique is to establish what the fair value (i.e. the transaction price in an arms' length exchange motivated by normal business considerations) would have been on the measurement date. To meet that measurement objective, a valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. The IFRIC concluded that any suggestion that a valuation technique should consider factors differently from the way a market participant would be expected to consider them so as to arrive at a price that is different from the price a market participant would determine would not be consistent with IAS 39. The approach in the proposal suggests that certain factors should be adjusted away from a market participant's view, which would be inconsistent with both the fair value measurement objective and the existing IAS 39 guidance.

The Committee noted that it could only provide implementation guidance not an interpretation. In addition, the IASB had just published the report of its Expert Advisory Panel which explains how experts measure and disclose the fair values of financial instruments in inactive markets and a staff summary on the use of judgment to measure those values when markets are no longer active. The Committee decided that the proposed issue relates directly to issues that would be discussed at the joint IASB/FASB roundtable meetings to be held in November and December 2008 and should be included for discussion at the joint roundtables. Any amended

guidance that is necessary should be provided as a result of the IASB's joint activities with the FASB and its fair value measurement project.

Accordingly, the IFRIC decided not to add this issue to its agenda.

IFRIC work in progress

The Committee reviewed a summary of the remaining outstanding issues and noted that all requests received were either discussed at the November 2008 meeting or are being considered by the IASB.

Future Committee meetings

The next Committee meeting is March 5, 2009. The previously scheduled January 2009 meeting was cancelled.

IFRIC issues interpretation on transfers of assets from customers

On January 29, 2009, the IFRIC issued IFRIC Interpretation 18 (IFRIC 18), *Transfers of Assets from Customers*, which applies to the recipient of a transfer from a customer of property, plant and equipment to be used to connect the customer to a network and/or provide ongoing access to a supply of goods or services. In practice the recipients of such transfers tend to be companies in the utilities industry.

IFRIC 18 was developed in response to divergent views on how to account for such transfers. The main issues addressed include:

- Whether an asset should be recognized by the recipient (and, if so, the amount to be recognized)
- Whether these transactions result in revenue for the recipient (and, if so, the period over which revenue is recorded)

IFRIC 18 addresses situations such as those where a property developer constructs a water supply system for a new housing development and transfers the resulting asset to the water supply company (or pays the water supplier to undertake the construction) which in turn connects the houses to its network. In some jurisdictions the rights and obligations of the developer and the water supplier are described in local law or regulation. In other cases such matters are negotiated by the two parties.

Scope

IFRIC 18 applies to agreements in which an entity receives from a customer an item of property, plant and equipment to be used to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes.

IFRIC 18 refers for convenience to the entity transferring the asset as the "customer." It notes however that the transferor of the asset will not always be the entity that will eventually have access to the supply of goods or services. In the example above, the transferor is the property developer but services will be provided to the occupants of the houses.

IFRIC 18 does not apply to transfers that fall within the scope of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or IFRIC 12, *Service Concession Arrangements*.

Should an asset be recognized by the recipient?

IFRIC 18 requires that the recipient should recognize an asset with respect to the transferred item if that item meets the definition of an asset as set out in the Framework. The key consideration in applying that definition is whether the recipient controls the item in question.

Assessing control

IFRIC 18 provides limited guidance on determining whether the recipient has obtained control over the transferred item. The IFRIC notes that in most circumstances the entity obtains the right of ownership of the transferred item although it adds that obtaining ownership is not necessarily conclusive in making the assessment. It does note however that "although the entity must use the transferred item of property, plant and equipment to provide one or more services to the customer, it may have the ability to decide how the transferred item of property, plant and equipment is operated and maintained and when it is replaced. In this case, the entity would normally conclude that it controls the transferred item..."

Our preliminary assessment is that the control criterion will usually be met. However, in some arrangements the customer might retain substantial rights of access and decision-making powers to the extent that the customer, rather than the recipient, is regarded as having control.

Revenue recognition

IFRIC 18 considers that transfers within its scope that give rise to a recognized asset for the recipient are revenue generating transactions, on the grounds that paragraph 12 of IAS 18, *Revenue*, states that "when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue." Paragraphs 14 to 20 of IFRIC 18 provide guidance on the period over which the revenue is recorded. The appropriate pattern of revenue recognition depends on the service or services that the recipient has agreed to provide to the customer, such as:

- *A connection service*: Recognize revenue when the connection is delivered
- *Ongoing access to a supply of goods and services*: Recognize revenue over the term specified in the agreement (or the useful life of the transferred asset if the agreement does not specify a term)
- *Both services*: Allocate revenue between the two service components, then apply the revenue recognition criteria to each component

Assessing the services being provided by the recipient

The timing of revenue recognition will be greatly affected by the assessment of which separately identifiable services the recipient has agreed to provide. Revenue would be recognized much sooner if, for example, the assessment concludes that the only service is connection. IFRIC 18 provides brief but useful guidance in making this determination:

- If the customer receives value from the service

At what amount?

If an asset is recognized, it is recorded at fair value on initial recognition.

connection and its fair value can be measured reliably, this indicates that the connection is a separately identifiable service

- The pricing of the subsequent good or services is also an important factor:
 1. If the customer pays a lower price for the ongoing goods or services than would otherwise be charged, this indicates that the identifiable service is the ongoing access to goods and services
 2. Conversely, if the recipient is obliged to provide the connection under the terms of its license and the customer pays the same price as other customers that have not transferred assets, this indicates that the recipient is not providing the customer with ongoing access to a supply of goods and services

Effective date and transition

IFRIC 18 must be applied prospectively to transfers of assets received on or after July 1, 2009. Earlier application is permitted provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred.

Applying the IFRIC 18 approach will require judgment, in particular in assessing whether an asset should be recognized and, if so, the period over which the associated revenue should be recorded. It is also likely to result in a number of companies in the utility sector changing their accounting policies. Nonetheless, IFRIC 18 should result in more consistent application in an area where practice has been diverse.

Cash contributions

Cash contributions that are within the scope of IFRIC 18 are accounted for as follows:

- The asset constructed by the developer is recorded at cost in accordance with IAS 16, *Property, Plant and Equipment*
- The cash received is recognized as revenue in a manner consistent with the above guidance and IAS 18

Example

A property developer is constructing a retail park and, as part of that development, will install a network of underground water supply pipes. Under local law, those pipes will be transferred free of charge to the local water supply company ("W"). Under the terms of its license agreement, W is obliged to:

- Connect the new water pipes to its existing network
- Supply water to the developer or the subsequent owners/occupant of the retail park at a 10% discount for a 5 year period

After the transfer, W is obliged to maintain supply to the retail park but has unrestricted access to the supply system, full maintenance responsibilities, and discretion over how and when to maintain or replace the new pipelines.

W determines that the fair value of the new pipelines it receives is CU10m. It considers that the connection has value to the developer because it will enhance the value of the development. It assesses the fair value of the connection it provides as CU2m on the basis of other arrangements in which a connection fee is negotiated. It estimates the fair value of the discount on the water it will supply as CU6m based on the present value of estimated future cash flows.

On the basis of the above facts, it seems appropriate for W to:

- Record the asset at its fair value of CU10m (entity W appears to have control of the transferred pipelines)
- Recognize revenue of CU 2.5m on connection (25% of the total, determined on a relative fair value basis)
- Defer the remaining revenue of CU7.5m and recognize it as water is supplied over the 5 year discount period

IFRIC issues interpretation on distributions of non-cash assets to owners

On November 27, 2008, the IFRIC issued IFRIC Interpretation 17 (IFRIC 17), *Distributions of Non-cash Assets to Owners*, which was developed in response to requests for guidance on how to account for distributions of assets other than cash as dividends to owners. Prior to the issuance of IFRIC 17, IFRS did not contain any guidance on how an entity should measure distributions to owners.

Scope

IFRIC 17 applies to distributions of non-cash assets by an entity to its owners, and to distributions that give owners a choice of receiving either non-cash assets or a cash alternative. Examples of non-cash assets are items of property, plant and equipment, businesses, and ownership interests in another entity.

However, IFRIC 17 does not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. Therefore it does not apply to transfers of businesses within a group by way of dividends. Nor does it apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. This type of distribution would be accounted for in accordance with IAS 27, *Consolidated and Separate Financial Statements*.

Issues addressed

IFRIC 17 addresses the following issues.

When to recognize a dividend payable

IFRIC 17 states that a liability to pay a dividend should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Where, for example, a dividend has been declared (e.g. by

management or the board of directors) subject to further approval (e.g. by the shareholders), a liability will not be recognized until that approval has been obtained.

Measurement of a dividend payable

IFRIC 17 requires an entity to measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

Where an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity estimates the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

$$52,000 \text{ ((10 x CU 5,000 x 80\%) + (10 x CU 6,000 x 20\%))}.$$

At the end of each reporting period and at the date of settlement, the entity reviews and, if necessary, adjusts the carrying amount of the dividend payable. Any changes in the carrying amount of the dividend payable are recognized in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the entity settles the dividend payable

IFRIC 17 requires an entity to recognize in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable upon settlement of the dividend payable.

Example

The share capital of Company A is divided into two classes; Class A shares and Class B shares. There are ten Class A shares, which are owned by the original founder shareholders of the Company. In the year ended December 31, 2010, Company A decides to pay a dividend to the Class A shareholders.

Company A decides to give the Class A shareholders a choice between receiving a dividend in cash of CU 5,000 or in the form of a non-cash asset. The non-cash asset is a standard model of car from the Company's 2007 car fleet. Each such car has a fair value of CU 6,000.

Company A estimates that 80% of the Class A shareholders will take the option of the cash dividend and 20% will elect for the non-cash asset. Company A will accordingly recognize a dividend payable of CU

Example

A property development company is owned by three founding shareholders. In the year ended December 31, 2010, it decides that instead of paying a cash dividend to the shareholders, it will distribute to each shareholder a one bedroom flat in a property it has developed by means of a dividend-in-kind. The flats have been recorded in the company's balance sheet at their cost of CU 100,000 each. However, their fair value is estimated to be CU 300,000 each.

The Company declares the dividend and receives shareholder approval on December 31, 2010. Accordingly it recognizes the dividend by debiting equity

CU 900,000 and crediting liabilities CU 900,000 (representing the fair value of the dividend).
On January 31, 2011, the entity settles the dividend.
IFRIC 17 requires the total difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable to be recognized in profit or loss upon settlement of the dividend payable. Assuming that the fair value of the flats has not changed between the date of declaration of the dividend and the date of settlement and therefore there is no need to adjust the carrying amount of the dividend, the company debits liabilities CU 900,000 and credits assets CU 300,000, with the difference of CU 600,000 being credited to profit or loss.

disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable.

Effective date

IFRIC 17 must be applied for annual periods beginning on or after July 1, 2009. Retrospective application is not permitted; however, earlier application is permitted. If an entity applies IFRIC 17 for a period beginning before July 1, 2009, it must also apply IFRS 3, *Business Combinations* (revised 2008) and IAS 27, *Consolidated and Separate Financial Statements* (revised 2008).

IASB clarifies effective date and transition requirements for reclassification of financial assets

On November 27, 2008, the IASB issued, *Reclassification of Financial Assets - Effective Date and Transition* (the clarification), to clarify the effective date and transition requirements of the IASB's October 2008 document, *Reclassification of Financial Assets - Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures* (the amendments).

The clarification specifies that the amendments to IAS 39 and IFRS 7 apply on or after July 1, 2008 and that reclassification in accordance with their provisions are not permitted before July 1, 2008. In addition, any reclassification of a financial asset made on or after November 1, 2008 takes effect only from the date when the reclassification is made.

The clarification is effective on or after July 1, 2008.

Presentation and disclosures

IFRIC 17 describes various requirements relating to presentation and disclosure of distributions of non-cash assets to owners. These include disclosures related to the nature of the asset to be distributed, its carrying amount, and the method used to determine fair value where the fair value of the asset to be distributed differs from its carrying amount at the end of the period.

Conforming amendments to IFRS 5

IFRIC 17 makes conforming amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The amendments state that the classification, presentation, and measurement requirements in IFRS 5 also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners. A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or

IASB issues restructured version of IFRS 1 and subsequently changes effective date

On November 27, 2008, the IASB issued a revised version of IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The revised version has an improved structure but does not contain any technical changes.

The previous version of IFRS 1 had been amended many times to accommodate first-time adoption requirements resulting from new or amended IFRS. As a result, the IFRS had over time become more complex and less clear. In 2007 the IASB proposed, as part of its annual improvements project, to change IFRS 1 to make it easier for readers to understand and to design it to better accommodate future changes.

The main change relates to the text dealing with the various exceptions and exemptions to the principle that an entity's opening IFRS statement of financial position should comply with each IFRS. This text has been relocated from the main body of the Standard to the Appendices of the Standard. This change will allow the IASB to amend the Standard more easily in the future.

The effective date of the revised version of IFRS 1 issued on November 27, 2008 was January 1, 2009. However, paragraphs 36, 37 and 39 would not be effective until July 1, 2009, as these paragraphs relate to IFRS 3, *Business Combinations* (revised 2008) and IAS 27, *Consolidated and Separate Financial Statements* (as amended in 2008). Therefore, technically IFRS 1 provides no guidance on the topics covered in these paragraphs between January 1, 2009 and July 1, 2009.

To resolve the issue, on December 17, 2008, the IASB changed the effective date of the restructured version of IFRS 1 to July 1, 2009. Earlier application is still permitted. The change in the effective date will be reflected in the electronic

version of IFRS 1 (issued in November 2008) included in eIFRS on the IASB website and in the 2009 Bound Volume of IFRS.

Proposed IASB documents

The IASB announced the issuance of the following proposed documents.

Amendments to IFRIC Interpretations 9 and 16

On January 30, 2009, the IASB issued an [Exposure Draft, Post-implementation Revisions to IFRIC Interpretations \(Proposed amendments to IFRIC 9 and IFRIC 16\)](#).

The proposals would amend IFRIC 9, Reassessment of Embedded Derivatives, and IFRIC 16, Hedges of a Net Investment in a Foreign Operation, as follows:

- *IFRIC 9*: The proposed amendment to IFRIC 9 paragraph 5 is a conforming amendment that became necessary as a result of the change in the definition of a business combination in IFRS 3, *Business Combinations*, as revised in January 2008. The proposed amendment would exclude embedded derivatives in contracts acquired in combinations of entities or business entities under common control and in the formation of joint ventures from the scope of IFRIC 9. The IFRIC has proposed that the amendment be effective for annual periods beginning on or after July 1, 2009 with prospective application. An entity that applies IFRS 3 (revised 2008) for an earlier period would be required to also apply the amendment to IFRIC 9.
- *IFRIC 16*: The proposed amendment to IFRIC 16 paragraph 14 would remove the restriction on which entity can hold the hedging instrument. The proposed amendment would allow any entity within

the group, including the foreign operation whose net investment is being hedged, to hold the hedging instrument. The effective date for this amendment would be the same as the original effective date of IFRIC 16; for annual periods beginning on or after October 1, 2008 with earlier application permitted.

The comment period ends on March 2, 2009.

Additional disclosures for investments in debt instruments

On December 23, 2008, the IASB issued an [Exposure Draft, *Investments in Debt Instruments: Proposed amendments to IFRS 7*](#), which would require entities to provide additional disclosures about all investments in debt instruments, other than those classified in the fair value through profit or loss category.

For all investments in debt instruments other than those at fair value through profit or loss, an entity would be required to present in tabular format

- A summary of the carrying amount in the statement of financial position, fair value, and amortized cost
- The pro forma effects on pre-tax profit or loss of the accounting for all those debt instruments at fair value through profit or loss and at amortized cost

The IASB believes that the proposed disclosures would allow greater comparability between investments in debt instruments held with and by different entities, and enhance investor confidence in the financial markets.

The effective date would be for annual periods ending on or after December 15, 2008. However, comparative information relating to periods before the date of initial adoption is not required.

The comment period ended January 15, 2009.

Amendments to clarify the accounting for embedded derivatives

On December 22, 2008, the IASB issued an [Exposure Draft, *Embedded Derivatives: Proposed amendments to IFRIC 9 and IAS 39*](#). The proposals respond to requests received from those taking part in the recent roundtable discussions organized by the IASB and the FASB to clarify the requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 9, *Reassessment of Embedded Derivatives*. Participants asked the IASB to act in order to prevent any diversity in practice developing as a result of the amendments made to IAS 39 in October 2008 to permit the reclassification of certain financial assets. The proposals would require all embedded derivatives to be assessed and, if necessary, separately accounted for in financial statements.

The effective date would be for annual periods ending on or after December 15, 2008.

The comment period ended January 21, 2009.

Joint approach for revenue recognition

On December 19, 2008, the IASB and the FASB (the Boards) issued discussion papers setting out a joint approach for the recognition of revenue.

- [IASB Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers*](#)
- [FASB Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers*](#)

Revenue recognition requirements in U.S. GAAP differ from those in IFRS and both are considered in need of improvement. The requirements in U.S. GAAP comprise numerous standards – many are industry-specific and

some can produce conflicting results for economically similar transactions. Although IFRS contain fewer standards on revenue recognition, its two main standards have different principles and can be difficult to understand and apply beyond simple transactions.

The objective of the Boards is to improve the existing guidance in both IFRS and U.S. GAAP by developing a single revenue model that can be applied consistently regardless of industry. Applying the underlying principle proposed by the Boards, a company would recognize revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed. That principle is similar to many existing requirements and the Boards expect that many transactions would remain unaffected by the proposals. However, clarifying that principle and applying it consistently to all contracts with customers would improve the comparability and understandability of revenue for users of financial statements.

The comment period ends June 19, 2009.

Principle-based consolidation standard

On December 18, 2008, the IASB issued an Exposure Draft, *ED 10 Consolidated Financial Statements*, in order to improve the definition of control and related application guidance so that a control model can be applied to all entities, and to improve the disclosure requirements about consolidated and unconsolidated entities. The Exposure Draft would apply to all entities except certain parent companies that are not required to prepare consolidated financial statements and postemployment benefit plans. The Exposure Draft is part of the IASB's comprehensive review of off balance sheet activities and addresses an area cited by the G20 leaders at their November 15, 2008 meeting. The Exposure Draft also responds to the recommendations contained in a report published in April 2008 by the Financial Stability Forum (FSF).

The use of special structures by reporting entities, particularly banks, to manage securitizations and other complex financial arrangements was highlighted by the FSF and the G20 as a matter of concern. Some commentators have questioned whether the current requirements lead to the right decisions about which of those structures should be consolidated and included in the financial statements. They have been concerned that financial statements do not convey the extent to which reporting entities are exposed to risks from those special structures.

The Exposure Draft presents a new, principle-based, definition of control that would be more difficult to evade by special structuring. The Exposure Draft also includes enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity.

The following documents are available:

- [ED 10 Consolidated Financial Statements](#)
- [Basis for Conclusions on Exposure Draft](#)
- [Draft Illustrative Examples](#)

The effective date would be for annual periods beginning on or after a date to be determined. The guidance would be applied prospectively and early application would be permitted. For prospective application purposes, the application date would be the later of the effective date of the standard or the acquisition (or disposition) date as defined in IFRS 3.

The comment period ends March 20, 2009.

Revised proposal to simplify disclosures for state-controlled entities

On December 11, 2008, the IASB issued a [revised Exposure Draft, Relationships with the State: Proposed amendments to IAS 24](#), to simplify the disclosure requirements that apply to state-controlled entities.

IAS 24, *Related Party Disclosures*, requires entities to provide disclosures about transactions with related parties. However, state-controlled entities may find it difficult and costly to provide all the required disclosures about transactions with other state-controlled entities. The IASB believes that it is possible to omit some of the disclosures while still providing sufficient information to users of financial statements. As a result, the IASB published in 2007 a proposal to exempt state-controlled entities from providing disclosures about transactions with other state-controlled entities if neither entity actually influenced the other entity and the state did not actually influence either entity with regard to transactions between them. However, respondents were concerned about the complexity of the proposals.

The revised proposal would exempt an entity from disclosing transactions with the state as well as other state-controlled entities, regardless of whether influence actually exists in such relationships. However, the proposal would require an entity to disclose information necessary to draw attention to such transactions.

The comment period ends March 13, 2009.

IASB issues revised work plan as of January 25, 2009

The IASB issued a [revised Work Plan](#) that includes a projected timetable as of January 25, 2009. The timetable shows the current best estimate of document publication dates. The effective date of amendments and new standards is

usually 6-18 months after publication date, although in setting an effective date the IASB considers all relevant factors. In appropriate circumstances, early adoption of new standards will be allowed.

The Work Plan anticipates the completion of several projects in 2010 and 2011. The IASB will consider staggering effective dates of standards to help entities that apply IFRS undertake an orderly transition to any new requirements. The IASB undertakes this work using its established due process, including consultation with interested parties. The timetable for completion is subject to change depending on input received throughout a project's development.

SEC extends comment period on proposed IFRS Roadmap

On February 4, 2009, the SEC [issued a Release](#) that extends to April 20, 2009 the period for commenting on its proposed Rule, *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*. The original comment period was scheduled to end on February 19, 2009. The SEC is extending the comment period to give issuers and other respondents additional time to analyze the issues and prepare their comments.

The IFRS Roadmap proposes the establishment of milestones that, if met, could require U.S. issuers to use International Financial Reporting Standards as issued by the IASB (IFRS) beginning in 2014. The IFRS Roadmap would also permit certain registrants to begin using IFRS in their filings starting with fiscal years ending on or after December 15, 2009.