Executive summary

A message from Will Rainey, Ernst & Young’s Global Director of IFRS Services

Welcome to the February 2008 issue of Global EYe on IFRS. In this edition of the newsletter, we present the following:

• An interview with Professor Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), about the forthcoming challenges facing the IASB as IFRS moves closer to becoming the globally preferred financial reporting framework.

• Our feature article on page 6 which looks at the accounting approach proposed in the IASB’s recently issued Exposure Draft 9 Joint Arrangements, which is expected to significantly increase the complexity of accounting for many joint arrangements and sets out our preliminary views.

• The technical focus article looks at determining whether additional payments connected with a business combination are additional consideration for the business or whether they are compensation for future employee services.

• On page 12, we look at the issues discussed by the IASB during its December and January meetings in more detail as well as the topics considered by the IFRIC at its January meeting.

We welcome your feedback on Global EYe on IFRS. The next issue of the newsletter will be published in April 2008. If you have any questions or concerns about this publication, please contact us at ifrs@uk.ey.com.
What are the forthcoming challenges for the IASB and IFRS?

In the December edition of “Global E Ye on IFRS”, we noted that interest in IFRSs around the world has grown rapidly in the last few years. Combined with the recent announcement by the US Securities and Exchange Commission (SEC) that Foreign Private Issuers reporting in accordance with IFRSs will no longer be required to reconcile their financial statements to US GAAP, this means that IFRSs are fast becoming the globally preferred financial reporting framework.

“Global E Ye on IFRS” recently spoke to Sir David Tweedie about the challenges that lie ahead for the IASB.

Q. The take-up of IFRSs around the world has been incredibly fast and IFRSs are quickly becoming the globally preferred financial reporting framework. What challenges does this present to the IASB?

When the IASB was formed in 2001, it was envisaged as a think tank for standard-setters. However, once the European Union decided in 2002 to adopt IFRSs for all listed entities from 1 January 2005, we had to start updating the existing standards so that IFRSs would be of sufficiently high quality to be adopted. This process put other projects back three years and it wasn’t really until 2005 that we started setting standards. The big challenge now is making sure we have the resources to become the global standard-setter. We also need to ensure that we work closely with the biggest global economies in Europe, the US and Japan to develop the standards.

Professor Sir David Tweedie

This month our interview is with Professor Sir David Tweedie

Professor Sir David Tweedie, has been Chairman of the IASB since January 2001. Sir David was Chairman of the Accounting Standards Board in the UK from 1990 to 2001 and prior to this he was the national technical partner at KPMG Peat Marwick McLintock.

Sir David is a visiting Professor of Accounting in the Management School at Edinburgh University and has been awarded honorary degrees by eight British universities. He was awarded the ICAEW’s Founding Societies Centenary Award for 1997 and the CIMA Award 1998 for services to the accounting profession.
Q. The SEC decision to drop the reconciliation requirement for Foreign Private Issuers has been a huge step forward in the growth of IFRS. How will this impact the IASB’s convergence programme with the US Financial Accounting Standards Board (FASB)?

The decision by the SEC to drop the reconciliation requirement has been critical for a number of countries in deciding to adopt IFRSs, particularly in places like Latin America which need to access US capital markets. Developing the Memorandum of Understanding (MoU) in 2006 was the key to the SEC agreeing to drop the requirement. The MoU sets out a roadmap for convergence between IFRSs and US GAAP, and the first significant joint project undertaken was the development of the revised standards for business combinations. This has been very successful and once the SEC could see that the convergence programme was on track it was willing to drop the reconciliation requirement. However, we are committed to finishing the other projects in the MoU, which include some big issues such as financial instruments, post-retirement benefits and leases. As these projects progress we hope the SEC will allow US companies to report under IFRSs, but this may well not happen until at least 2011 or later.

Q. There have been a number of issues in Europe regarding endorsement because of some of the conclusions the IASB has reached. How will the IASB address these concerns?

I think some of the problems in Europe have come about through a lack of communication early in the process. IFRSs are written for all jurisdictions and not just Europe, and in fact the Europeans are in a minority on the Board and so their views do get challenged. The European Union has a very complex process for endorsing standards, much more complex than other jurisdictions and so we need to allow more time for issues to come through. Recent changes to this process now require the European Parliament also to give a positive endorsement of each new IFRS and it has, quite naturally, taken some time for the process to settle down and relationships to be formed. The first standard to be subject to this revised endorsement process was IFRS 8 Operating Segments, which was a short-term convergence project – these are projects in which the two boards (IASB and FASB) look at each other’s standards and decide which is the superior. With IFRS 8 the boards took the view that the ‘through the eyes of management’ approach of the US standard was superior, and the majority of respondents to the consultation agreed. I think this was misinterpreted as bringing US GAAP into IFRSs, which is not our intention. IFRS 8 has now received European endorsement and we have significantly improved communication with the various European institutions to try to ensure that misunderstandings like this don’t happen again.
Q. One particular concern that has come from a number of constituents is the extent to which their views are considered and whether the IASB has the right due process for issuing standards. How does the IASB ensure all views are heard?

There have been a number of concerns about how we address constituents’ views and we have made some changes to our process to ensure that constituents understand it. First, we have increased the time period before a standard becomes effective to give jurisdictions more time to adopt standards. Secondly, we now produce a feedback statement when we publish a new standard. We have done this for the first time with the revised IFRS 3 Business Combinations issued in January this year. Previously, we addressed comments in the basis for conclusions on standards, which are too technical for general use. The new feedback statement allows us to address the main comments raised by constituents in a format that is easy to understand. Thirdly, we have also introduced an impact statement, in which we try to assess the impact of the changes. Finally, two years after a standard has become mandatory, if there are issues causing particular problems the Board will re-examine the standard, so there is a possibility of rectifying issues that have arisen after implementation.

In addition, all our Board meetings are held in public and we recently topped a global accountability report, published by the One World Trust, for the best developed external stakeholder engagement capabilities. These show our commitment to a transparent and accountable process.

The Trustees of the International Accounting Standards Committee Foundation have also recently announced a constitutional review of the IASB in 2008. One of the issues that will need to be considered is whether the representation on the Board is right. Currently we have 14 members, of whom 10 are from Europe and the US but this balance may need to change as more countries convert to IFRSs.
Q. The IASB Work Plan includes a large number of projects, some of which address some of the most fundamental aspects of financial reporting. How can the IASB effectively progress all of these projects with limited resources? Which projects do you see as the most important to address in the short term?

The project plan is now very large and there is too much to do with the current resources, so we need to look at increasing our staff. We are also looking at ways in which we can work more efficiently to try to speed up some of our projects. I think the priorities for the IASB are: financial statement presentation and the definition of profit, as this affects many areas; post-retirement benefits, particularly those schemes that are somewhere between defined benefit and defined contribution schemes; the leasing project, as the current leasing standard does not require all items to be on balance sheet; financial instruments, particularly how we can reduce the level of complexity; and consolidations, particularly in relation to whether entities have control in securitisation arrangements.

Q. What is your key objective for IFRSs in the short term?

I would like to see accounting being returned to the profession, that is to say, entities and their auditors using their judgment to apply accounting standards. To achieve this we need to develop more principle-based standards, which will mean replacing those that are very rule-based such as the standards on financial instruments, income taxes and share based payments. I believe we shouldn’t be producing many interpretations and the accounting profession needs to stop asking questions on every aspect of a standard, but to use its judgment in applying the principles.

To achieve all of our objectives we need support from the profession and I would strongly encourage constituents to respond to our proposals and discussions as early as possible in the process so that we can take their views on board.
Accounting for joint arrangements – proposed changes

The IASB recently issued Exposure Draft 9 Joint Arrangements (ED 9), as part of its short-term convergence project with US GAAP, which is intended to replace IAS 31 Interests in Joint Ventures. At first glance, it appears that the only change is the elimination of the proportionate consolidation method to account for joint ventures, leaving only the equity accounting method. However, the overall approach underlying ED 9 will significantly increase the complexity of accounting for many joint arrangements.

This article looks at the approach proposed in ED 9 to account for joint arrangements and explains why Ernst & Young does not support the proposals contained in this Exposure Draft.

ED 9 Joint Arrangements, issued by the IASB in September 2007, proposes that parties to a joint arrangement recognise their contractual rights and obligations arising from that arrangement. The objective of this broad principle is to shift the focus from how the form of a joint arrangement dictates the accounting to focus more on the benefits and risks. Therefore, the structure of the arrangement is only one element in assessing the benefits and risks.

In IFRS Alert 19, we summarised the changes proposed by the ED. The most significant impact arising from the amendments is the possibility that, in any one structure, there may be a number of different arrangements, each of which would need to be separately accounted for. Consequently, the process of identifying the separate arrangements and then accounting for each of these adds to the complexity of accounting for joint ventures.
Identifying the types of joint arrangement

Today, many joint arrangements existing within an entity structure are accounted for as one arrangement – a joint venture – for which the entity has a choice of accounting policy – equity accounting or proportionate consolidation. In a survey we conducted in 2006\(^1\), we found that just over half of the sample applied the proportionate consolidation method.

ED 9, on the other hand, proposes that every joint arrangement is split between and/or classified into one of three types – a joint asset, a joint operation or a joint venture. As noted above, the concept behind this is that each party accounts for its own rights and obligations and records the assets it controls. Many arrangements that exist within an entity structure may therefore comprise both a joint asset and a joint venture, or both a joint operation and a joint venture. In such cases, the balance sheet must be carefully analysed to determine which assets (and liabilities) are joint assets or are part of the joint operations that are to be accounted for ‘in accordance with other IFRS’. The remaining or residual assets and liabilities then make up the ‘joint venture’, which is to be equity accounted.

While the IASB did not intend that there would be a significant change to the accounting for joint assets and joint operations, the revisions made by ED 9 have unfortunately introduced doubt as to how such arrangements are accounted for. For example, if an arrangement or part of an arrangement is classified as a joint asset, ED 9 proposes that the share of the asset is accounted for in accordance with other IFRS. Which IFRS is then applicable? Is it ‘the right of use’ which then treats the asset as a lease, or is it a proportion of the asset itself to be recognised? See Example 2 from the illustrative examples of ED 9 overleaf for an illustration of this dilemma.

When an arrangement is split between an element that is a joint asset and a residual that becomes the joint venture, the liabilities need also to be split. Only liabilities that are ‘incurred jointly’ with the other parties are recognised as part of the joint asset arrangement. In determining whether liabilities belong to the entity or are incurred jointly with the other party, any guarantees provided by the venturers are also taken into account. Often, when the joint arrangement is conducted through an entity structure, the liabilities may not be ‘incurred jointly’ (as the entity will enter into these in its own right), and these will remain in the joint venture, to be equity accounted. The Standard on equity accounting restricts the situations in which an equity accounted investment can be recognised below zero, hence, there may be some mismatch between the assets and liabilities ultimately recognised.

Accounting for joint arrangements – proposed changes

Ernst & Young’s view

While, in general, we support the IASB in reducing the accounting options in the Standards, our comment letter submitted to the IASB expressed concerns over eliminating the proportionate consolidation method. We were also concerned about the complexity of the approach proposed in the ED, as we discussed above.

The Board, in its proposals, felt that proportionate consolidation was not in accordance with the framework, in that the balance sheet represented a mix of assets controlled and assets subject to joint control, and that such assets may not meet the definition of ‘an asset’. The Board is currently deliberating on a number of concepts and principles that underlie the accounting for joint ventures. These include: the definition of an asset, the reporting entity, the definition of control and consolidation methods. We noted that some of the preliminary conclusions reached by the Board in these areas were the basis for conclusions reached in ED 9. In our view, to base changes in accounting on concepts that are still under debate is unsafe and potentially introduces greater uncertainty as to what future practice will be.

We also believe that the Board should conduct an assessment of the equity accounting method before concluding that this should be the only method to account for joint ventures. In our view, the equity accounting method has a number of shortcomings and there are inconsistencies within the framework that have been overlooked in ED 9. We proposed therefore that, before any changes are made to the methods of accounting for joint ventures, a thorough understanding is required of:

• The difference between an investment in an entity under common control and an investment in an entity under significant influence;
• The reporting objective of each type of investment;
• The identification of other potential models to account for the investment; and
• The purpose of the equity accounting method and the proportionate consolidation method, and any other model that may be identified.

For those entities that often enter into joint arrangements, the future discussions at the IASB should prove to be interesting. We hope that the Board will give due consideration to the views of its constituents and, in particular, reconsider introducing additional complexity into IFRS.
Many business combination agreements include an adjustment to the consideration that is contingent on future events such as a specified level of profit being achieved. Where the former shareholders will continue as employees of the business, an assessment is required to determine whether such payments are additional consideration for the acquisition of the business, or whether they are compensation for future employee services. This article considers which factors need to be taken into account in making that assessment and their potential impact. We also highlight the changes that arise as a result of the revisions to IFRS 3 Business Combinations.

In many acquisitions of owner-managed businesses, the acquiree’s former shareholders continue to be key employees of the acquiree subsequent to the acquisition, holding positions that may affect the financial results of the acquiree. Moreover, the acquisition is negotiated such that the former shareholders may receive additional payments from the acquirer which are dependent on the future performance of the business. However, the agreements often contain other conditions and factors that will effect whether or not the acquirer makes these payments — for example, remaining an employee for a specified period of time, or for the period until the company is listed on an exchange.

A general principle underlying IFRS is that transactions should be accounted for in accordance with their substance rather than their legal form. Therefore, we believe that a distinction must be made between contingent consideration that is, in substance, an additional purchase price paid to the former owners in their capacity as shareholders and consideration that is, in substance, compensation for the future services of the former owners, in their capacity as employees. All terms of the agreements have a critical role in this assessment.
Currently, IFRS provides little guidance as to how to assess the substance of such payments. The hierarchy set out in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors allows reference to other standard-setting bodies that use a similar conceptual framework in such cases. US GAAP has specific guidance to make the distinction referred to above. EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination includes a number of indicators to evaluate the substance of additional payments, which we believe are also applicable when implementing IFRS.

In general, when the agreement includes employment conditions such that the payments are forfeited upon termination of employment, the additional payments will generally be classified as employment compensation. However, the following factors should also be considered:

- **Length of future employment**: when the employment period is short in absolute terms or it is short compared with the length of the earn-out period, this may indicate that the additional payments are not linked to employment and are, therefore, in the nature of purchase consideration rather than employment compensation.

- **Comparability of future salary with others**: when the agreed salary is within a range that is comparable with that paid to other employees in similar positions, within or outside of the organisation, this may indicate that the additional payments are in the nature of purchase consideration rather than employment compensation.

- **Comparability of additional payments with those made to former owners who do not become employees**: if selling shareholders, who do not become employees, receive lower additional payments on a per share basis than the selling shareholders who become employees of the combined enterprise, this may indicate that the incremental amount of additional payments is in the nature of employment compensation rather than purchase consideration.

- **The formula for determining contingent consideration**: when the formula used to calculate any additional payment relates to the valuation approach, such that when added to the consideration already paid, the total payment represents the fair value of the business, this may indicate that the additional payment is in the nature of purchase consideration rather than employment compensation. Similarly, if the purchase consideration paid at acquisition was lower than the estimated fair value, or at the lower end of a range, this may indicate that the additional payment is in the nature of purchase consideration rather than employment compensation.
In all cases, the reasons for structuring the terms of the transaction in a particular way, and the identity of the initiator, should be understood.

**Future IFRS**

The revised IFRS 3 Business Combinations (IFRS 3R), issued by the IASB in January 2008, specifically addresses this matter, and further limits the scope for additional payments paid to former employees to be categorised as consideration for the purchase of a business. In particular, it states that where payments are forfeited upon termination of employment, the additional payments will be classified as compensation costs, rather than consideration for the business.

**Conclusion**

When additional payments are included in the terms of business acquisitions, careful analysis is needed to determine whether they are, in substance, part of the cost of the acquisition or whether they are, in substance, compensation costs for services provided subsequent to the acquisition. As the latter will not be accounted for as part of the consideration, the impact can be quite significant. Management should consider the impact of all terms around such payments at the time they are negotiated; in particular, any conditions under which payment can be forfeited, in order that they reflect management’s intentions.

**Example**

Company A acquires Company B on 1 January 2008 for cash consideration of €15 million and additional payments of up to €5 million payable over the next 5 years, subject to B achieving certain profit levels. The fair value of the whole consideration represents a price-earning ratio of 12 at the date of acquisition.

Company A will employ the three former shareholders of Company B for a period of 2 years following the date of the acquisition to ensure a smooth handover of the business. During this 2 year period, they will each be paid a salary of €300,000, plus up to €80,000 in bonuses, subject to certain performance criteria being met.

In determining whether the additional payment of €5 million represents consideration for the business or employee compensation, Company A will need to consider the following:

- The employment period is for 2 years, compared to the earn-out period of 5 years, indicating that the additional payment is consideration for the business rather than compensation costs. If however, these payments are forfeited (in whole or in part) if employment is terminated before the end of the second year, this will indicate that all or a part of the additional payment is compensation.

- The former shareholders are receiving a salary of €300,000 plus a bonus element. If this represents a market rate for the role, it is an indication that the additional payments are compensation for the business rather than compensation costs.

- If the €15 million already paid for the business represented the fair value of company B at the date of acquisition, it is an indication that the additional payments are compensation costs rather than consideration for the business.

- The formula used to calculate the additional payment leads to a total fair value of the consideration representing a price-earnings ratio of 12. If this is comparable to the fair value of the entity or a market-based price earnings ratio, this is an indicator that the additional payments are consideration for the business rather than compensation costs. If however this is in excess of a market-based price-earnings ratio, this may indicate that the additional payments are compensation costs rather than consideration for the business.
IASB highlights

The IASB (the Board) met in London on 16-19 December 2007 and 13-16 January 2008. The table below summarises the main issues discussed at the meetings. The following pages contain more detailed information about the shaded items in the table.

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<tr>
<th>Projects discussed</th>
<th>Key discussion points</th>
<th>Status</th>
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| Annual improvements to IFRS (2008)     | Discussed five issues for inclusion in the 2008 annual improvement project:  
  • Disclosure requirements of segment assets.  
  • Scope of Paragraph 11A of IAS 39 – application of the fair value option.  
  • Application of paragraph AG33(d)(iii) – bifurcation of embedded foreign currency derivatives.  
  • Cash flow hedges and reclassification of gains or losses.  
  • Disclosures required for non-current assets held for sale.                                                                                                       | ED expected in October  |
| Revenue recognition                    | Education session. Continued discussion about the revenue recognition models.                                                                                                                                          | ED expected Q1          |
| Proposed amendments to IAS 37: redeliberations | Decided that the Basis for Conclusions in the revised standard should better explain how the proposed requirements derive from the existing standard. The Board further discussed why it believes that the proposed measurement basis provides relevant and reliable information about liabilities within the scope of IAS 37. | Standard expected in 2009 |
| Conceptual framework                   | Discussed a revised working definition of a liability.  
  The definition of a liability should focus on an economic obligation, rather than probable future sacrifices.  
  Therefore it was proposed to:  
  • remove the assessment of likelihood; and  
  • replace references to past transactions or other events by a focus on the present.                                                                         | ED (Phase A) expected in Q1  
  DP (Phase B) expected 2009 |
| Post-employment benefits               | Discussed several sweep issues prior to issuing the discussion paper.                                                                                                                                                 | DP expected in Q1       |
| Derecognising assets and liabilities   | Continued discussion of two views about when financial assets and financial liabilities could be presented together in the financial statements.                                                                     | RR expected in Q1       |
| Financial instruments: puttable at fair value | Discussed a draft of the proposed amendments to clarify some issues raised during the round-table discussions.  
  For information we refer to the Developments in IFRS for Financial Instruments Newsletter of January 2008.                                                    | Amendment to IAS 32 expected in Q1 |
| Liabilities and Equity                 | Education session.  
  The Board discussed the content of the staff draft of the IASB Invitation to Comment to be included in the Discussion Paper as well as the questions for respondents.  
  For information we refer to the Developments in IFRS for Financial Instruments Newsletter of January 2008.                                                   | DP expected in Q1       |
| Financial instruments – comprehensive project | Discussed the content of the discussion paper – Reducing Complexity in Reporting Financial Instruments.                                                                                                   | DP expected Q1          |
| Earnings per share                     | Discussed some sweep issues that arose during the drafting of the exposure draft (the ED).  
  Confirmed that the calculation of basic EPS should include only those shares that: (a) are currently either exercisable or convertible for little or no cost; or (b) can currently participate in profit or loss with ordinary shareholders.  
  The denominator of diluted EPS should not be adjusted for instruments that are measured at fair value through profit or loss.  
  Amend the scope of the two-class method to include all participating instruments, regardless of whether they are classified as liabilities or equity.                                 | ED expected Q1          |
Annual improvements process
The following amendments will be included in the second annual improvements project Exposure Draft, due to be published in the second half of 2008.

Disclosure requirements of segment assets
The Board agreed to amend the basis for conclusion of IFRS 8 Operating Segments to eliminate an unintended potential divergence from existing US practice regarding the disclosures of information about segment assets.

Application of IAS 39
1. Scope of Paragraph 11A of IAS 39 - Application of the fair value option
The fair value option in IAS 39 allows a contract that contains one or more embedded derivatives to be designated at fair value through profit or loss, subject to the requirements of paragraph 11A of IAS 39.

The Board decided to replace the term ‘contract’ with ‘financial instrument in the scope of IAS 39’, to clarify that the fair value option is only available for host contracts which are financial instruments, and are not available to other host contracts, such as leases, insurance contracts or contracts to purchase or sell a non-financial item if it is outside the scope of IAS 39.

2. Application of paragraph AG33(d)(iii) of IAS 39 - Bifurcation of embedded foreign currency derivatives
IAS 39 AG33(d)(iii) of IAS 39 indicates that, if the foreign currency in which a contract to buy or sell a non-financial item is denominated in a “currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place”, the embedded foreign currency derivative is not required to be separated.
There is inconsistency in the application of this paragraph that has led the Board to propose to clarify its meaning. The Board noted that it intended to prohibit separation of embedded foreign currency derivatives that are integral to the contractual arrangement. It also noted that an embedded foreign currency derivative is likely to be integral to the contractual arrangement if the foreign currency has the characteristics of a functional currency as per IAS 21 - The Effects of Changes in Foreign Exchange Rates. Consequently, the Board decided to amend paragraph AG33(d)(iii) of IAS 39 to refer to a currency that has the characteristics of a functional currency as set out in paragraph 9 of IAS 21. IAS 21 indicates that the functional currency is normally the currency in which it primarily generates and expends cash. Additional indicators are included to help make this assessment.

3. Cash flow hedges and reclassification of gains or losses
When a hedge of a forecast transaction involves a cash flow hedge, paragraph 97 of IAS 39 requires the gains or losses on the hedging instrument to be reclassified from equity to profit or loss in the same period(s) in which the forecast transaction affects profit or loss. It is unclear how this applies when the cash flows designated as the hedged item differ from the cash flows of the entire transaction. For instance, an entity may hedge the effect of changes in interest rates on cash flows due to occur over a period of six months, while the cash flows of the entire instrument are for a period of five years.

The Board decided to amend IAS 39 to clarify that the gains and losses on hedging instruments are reclassified from equity to the profit or loss in the period(s) in which the hedged cash flows affect profit or loss.

Disclosures required for non-current assets held for sale
The Board clarified the disclosure requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, by adding in the following wording to IFRS 5:

- IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- Disclosures in other IFRS do not apply to such assets (or disposal groups) unless that other IFRS specifically requires a disclosure in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; and
- Other disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 - Presentation of Financial Statements.
The IFRIC met in London on 10 and 11 January 2008. The table below provides a summary of the main issues discussed.

### IFRIC projects in progress – key decisions made on ongoing projects

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<thead>
<tr>
<th>Projects discussed</th>
<th>Key discussion points</th>
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<tr>
<td>IFRIC D21 Real Estate Sales</td>
<td>Considered comment letters received and focused on the issues within the scope of real estate sales. Issues arising if the scope of the project were widened will be considered later. The analysis of the comment letters indicated that the draft interpretation was not clear. In particular, the interaction between paragraphs 9 and 10 and what the principle actually was. No decisions were made at this meeting.</td>
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<tr>
<td>IFRIC D22 Hedges of a Net Investment in a Foreign Operation</td>
<td>Considered comment letters received. Many respondents asked for clarification of the application of the proposals in specific circumstances. Confirmed its decisions taken in the draft interpretation and directed staff to prepare a more comprehensive example to illustrate its conclusion including the effect on hedge accounting in different situations and using different consolidation methods.</td>
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### IFRIC agenda decisions – items not taken on to IFRIC’s agenda

- **IAS 19 - Employee Benefits - Death-in-service benefits**
  The IFRIC received a request for guidance on how to allocate the cost of benefits to periods of service for a payment made to employees if they die while employed. The IFRIC noted that the cost for such a payment would have to be allocated until the anticipated date of death in accordance with paragraph 67(b) of IAS 19. In addition, paragraph 72 of IAS 19 requires the use of the same mortality assumptions for a defined benefit plan and an associated death-in-service benefit. However, if the benefit is insured and an entity pays insurance premiums, the cost could be accounted for as a defined contribution plan in accordance with paragraph 39 of IAS 19. The IFRIC decided not to take this issue onto its agenda as it did not expect divergence in practice and any further guidance would be application guidance on the use of the Projected Unit Credit Method.

- **IAS 19 Employee Benefits - Definition of plan assets**
  The IFRIC received a request about whether investment or insurance policies that are issued by an entity to a pension plan covering its own employees (or employees of another entity in the group), would be part of plan assets in the consolidated and separate financial statements of the sponsor. The IFRIC noted that a policy issued by a related party could not meet the definition of a qualifying insurance policy as defined in paragraph 7 of IAS 19. The IFRIC decided not to take this issue onto its agenda as it was too narrow in scope.
IFRIC highlights  

- **IAS 19 Employee Benefits - Pension promises based on performance hurdles**
  The IFRIC received a request to clarify how a defined benefit obligation, that includes pension promises based on achieving specific performance targets, should be accounted for in accordance with IAS 19. The IFRIC referred to paragraph 73 of IAS 19 and noted that performance targets are variables that will affect the ultimate cost of providing the post-employment benefits. Therefore, they should be included in the determination of the benefit and, the effect on the attribution of benefits must also be considered. The IFRIC decided not to take this issue onto its agenda as it did not expect divergence in practice.

- **IAS 23 Borrowing Costs (revised 2007) - Foreign exchange and capitalisable borrowing costs**
  The IFRIC received a request for guidance specifically on which foreign exchange differences may be regarded as adjustments to interest costs. Guidance was requested for the treatment of foreign exchange gains and losses and the treatment of derivatives used to hedge a foreign exchange exposure. The IFRIC referred to paragraph 11 of IAS 23 and noted that determining which portion of borrowing costs are directly attributable to a qualifying asset is a matter of accounting policy and requires judgment. The accounting policy and the judgment should be disclosed if the information is significant and relevant to understanding the financial statements. The IFRIC decided not to take this issue onto its agenda as any further guidance would be application guidance.

- **IAS 39 Financial Instruments: Recognition and Measurement - Scope of IAS 39 paragraph 2(g)**
  The IFRIC received a request as to whether the scope exceptions on contracts between an acquirer and a vendor in a business combination to buy a business at a future date applied only to binding contracts to acquire a controlling interest, or whether they apply more widely. The request also asked whether the scope exceptions could be applied to other similar transactions such as acquiring an interest in an associate. The IFRIC acknowledged that the wording is ambiguous and could lead to diversity. Therefore, the IFRIC will ask the Board to clarify the standard.
Resources

**IFRS Financial Statements Survey – Investment Properties**
This publication looks at the application of IFRS in the investment property sector. We compare the financial statements of 25 listed property companies, focusing on application of IAS 40 Investment Properties, IAS 16 Property, Plant & Equipment, IAS 17 Leases, IAS 18 Revenue and IAS 12 Income Taxes as they apply to this sector.

**IFRS 7 Financial Instruments: Disclosures – Implementation Guidance for Investment Funds**
This guide has been prepared specifically for the investment funds industry. It contains information on the requirements of IFRS 7 generally as well as illustrations of the types of disclosures that a fund may make.

**IFRS Alert (Issues 21 – 26)**
**Issue 21** summarises the IASB Exposure Draft of proposed amendments to IFRS 2 and IFRIC 11 – Group Cash-Settled Share-Based Payment Transactions. The Exposure Draft is open for comment until 17 March 2008.

**Issue 22** summarises the IASB Exposure Draft of proposed amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. The Exposure Draft is open for comment until 26 February 2008.

**Issue 23** summarises the revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements which were issued by the IASB in January 2008. The revised standards will significantly change the accounting for acquisitions and transactions with non-controlling interests.

**Issue 24** summarises the proposals contained in IFRIC Draft Interpretation D23 Distribution of Non-cash Assets to Owners. The Draft is open for comment until 25 April 2008.

**Issue 25** summarises the amendments to IFRS 2 Share-based payments – Vesting Conditions and Cancellations, which clarifies the definition of a vesting condition and prescribes the accounting treatment of awards effectively cancelled because non-vesting conditions are not satisfied.

**Issue 26** summarises the proposals in IFRIC Draft Interpretation D24 Customer Contributions. The Draft is open for comment until 25 April 2008.
This newsletter summarises the main discussions and conclusions reached concerning financial instruments at the November 2007, December 2007 and January 2008 meetings of the IASB, as well as the January 2008 meeting of the IFRIC.

Business Combinations and Consolidated Financial Statements – How the changes will impact your business
This publication discusses in further detail the key changes introduced by the revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements and what these will mean for your business – in particular, how they may change the way in which acquisitions are structured and negotiated.

How are European Utilities applying IFRS? – An overview of financial statements 2006
This publication looks at the application of IFRS in the utilities sector. We compare the financial statements of 32 utility entities in Europe, focusing on utility specific issues related to property, plant and equipment, intangibles, emission rights, impairment, financial instruments, provisions and income taxes.

Telecommunications Accounting Updates: Customer Loyalty Programmes
This publication provides implementation guidance on IFRIC 13 Customer Loyalty Programmes. It is a supplement to the Ernst & Young publication Customer Loyalty Programmes: Implementation Guidance released in November 2007, focusing on the complexities associated with its application in the telecommunications industry.

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This publication contains the interim financial statements of a fictitious entity, Good Group (International) Limited, incorporating all IFRS in issue at 31 March 2008. The publication illustrates how IFRS accounts will be presented in the half year ending 30 June 2008. 🌍