

IAS Plus Update.

Closing out 2009

This newsletter provides a high level overview of new and revised International Financial Reporting Standards (IFRS) and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) that are effective for December 2009 and later accounting periods. Of the long list of documents in issue at the date of this newsletter (see next page), one Standard, four Interpretations and various amendments to Standards are required to be adopted for December 2009 year-ends. Entities are, however, **generally** permitted to adopt new and revised Standards and Interpretations in advance of their effective dates (refer to individual Standards and Interpretations for details).

By necessity, the following pages provide a very high level overview of the new and revised Standards and Interpretations – but, where applicable, we have provided links to past newsletters dealing with the specific Standard or Interpretation in more detail. These past newsletters are all available on www.iasplus.com. As always, entities should refer to the Standards and Interpretations themselves to identify all of the changes that may affect their particular circumstances.

Where a Standard or Interpretation is adopted in advance of its effective date, disclosure of that fact is generally required.

Even where there is no intention to implement a new or revised requirement in advance of its effective date, entities need to be aware of such developments as soon as they are issued, in order to comply with the requirement included in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose in their financial statements the potential impact of Standards and Interpretations that have been issued but are not yet effective.

Entities should exercise caution regarding early adoption of Standards and Interpretations, particularly with respect to the impact of local endorsement or other legal processes. For example, in the European Union (EU), several of the Standards and Interpretations listed on the next page, have not yet been endorsed. For further information, refer to the EU Endorsement Status Report on www.efrag.org.

Finally, be cautious where the effective dates of Standards and Interpretations are linked. In several cases, entities are not permitted to adopt a Standard or Interpretation in advance of its effective date without also adopting other Standards and/or Interpretations that the Board has linked to the one of interest.

IAS Plus website

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New and revised Standards and Interpretations

The following is a comprehensive list of new and revised Standards and Interpretations in issue at December 2009, and effective for 31 December 2009 year ends and later periods. All of the newsletters referred to in the table below may be accessed at www.iasplus.com/iasplus/iasplus.htm

Effective for 31 December 2009 year ends

New Standards		Effective for annual periods beginning on or after	IAS Plus newsletter issued
IFRS 8	Operating Segments	1 January 2009	December 2006
IFRS for SMEs	IFRS for Small and Medium-sized Entities	Available immediately	July 2009
Amendments to Standards			
IFRS 16 & IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009	May 2008
IFRS 2	Vesting Conditions and Cancellations	1 January 2009	January 2008
IFRS 7	Enhancing Disclosures about Fair Value and Liquidity risk	1 January 2009	March 2009
IAS 1	Presentation of Financial Statements	1 January 2009	September 2007
IAS 23	Borrowing Cost	1 January 2009	April 2007
IAS 32 & IAS 1	Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009	February 2008
IAS 39	Clarification regarding Assessment of Embedded Derivatives	Annual periods ending on or after 30 June 2009	March 2009
Various	Improvements to IFRSs	Various (mainly 1 January 2009)	May 2008
New Interpretations			
IFRIC 13	Customer Loyalty Programmes	1 July 2008	June 2007
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	July 2008
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	July 2008
IFRIC 18	Transfers of Assets from Customers	Transfers received on or after 1 July 2009	February 2009

Available for early adoption for 31 December 2009 year

New Standards		Effective for annual periods beginning on or after	IAS Plus newsletter issued
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013	November 2009
Amendments to Standards			
IFRS 1	Revisions to IFRS 1 on First-time Adoption of IFRSs	1 July 2009	December 2008
	Additional Exemptions for First-time Adopters	1 January 2010	August 2009
IFRS 2	Group Cash-settled Share-based Payments	1 January 2010	June 2009
IFRS 3 & IAS 27	Business Combinations	1 July 2009	January 2008
IAS 24	Related Party Disclosures	1 January 2011	November 2009
IAS 32	Classification of Rights Issues	1 February 2010	October 2009
IAS 39	Eligible Hedged Items	1 July 2009	July 2008
Various	Improvements to IFRSs	Various	April 2009
New Interpretations			
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	December 2008
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	December 2009
Amendments to Interpretations			
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	December 2009

Effective for 31 December 2009 year ends

IFRS 8 Operating Segments

Effective 1 January 2009

IFRS 8 supersedes IAS 14 *Segment Reporting*.

IFRS 8's core principle is that an entity whose debt or equity instruments are publicly traded should disclose information about its reportable segments, to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Upon adoption of IFRS 8, the identification of an entity's segments may or may not change, depending on how the entity has applied IAS 14 in the past. IAS 14 required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In contrast to IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities. Nor does it require segment information to be prepared in conformity with the accounting policies adopted for the entity's financial statements. As a consequence, entities will have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

IFRS for Small and Medium-sized Entities

Effective immediately upon issue

The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is intended for use by entities (known as SMEs) that do not have public accountability and that are required, or choose, to publish general purpose financial statements for external users. Essentially, an entity is considered to have public accountability if its debt or equity instruments are publicly traded, or if it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients.

The IFRS for SMEs is a self-contained Standard, incorporating accounting principles that are based on full IFRSs but that have been simplified to suit the entities within its scope. Key simplifications include:

- some topics in IFRSs are omitted because they are not relevant to typical SMEs;
- some accounting policy treatments in full IFRSs are not allowed because a simplified method is available to SMEs;
- simplification of many of the recognition and measurement principles that are in full IFRSs;
- substantially fewer disclosures; and
- simplified language and explanations throughout.

The result of these simplifications is that the IFRS for SMEs reduces the volume of accounting requirements applicable to SMEs by more than 90 per cent when compared with the full set of IFRSs.

Where financial statements are prepared using the IFRS for SMEs, the basis of presentation note (and, where applicable, the auditor's report) would refer to compliance with the IFRS for SMEs. There is no effective date for the Standard because the decision as to whether to adopt the IFRS for SMEs (and also, therefore, the timing for adoption) is a matter for each jurisdiction to decide on.

Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Effective 1 July 2009

These amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time, and address concerns that the previous requirement to retrospectively determine cost and to apply the cost method in accordance with IAS 27 could not, in some circumstances, be achieved without undue cost or effort for first-time adopters.

Following revision, IFRS 1 permits a first-time adopter that has chosen to account for such investments at cost, to measure that cost using a 'deemed cost' approach. This deemed cost would be determined (on an investment-by-investment basis) as either:

- fair value (determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*) at the entity's date of transition to IFRSs in its separate financial statements; or
- the previous GAAP carrying amount of the investment at that date.

First-time adopters are permitted to choose which measurement to use for each investment on an individual basis – therefore, some investments could be measured in accordance with the general rules of IAS 27, and some at deemed cost; and, for those measured at deemed cost, the choice between fair value and the previous GAAP carrying amount will be made on an individual investment basis.

The amendments have also removed from IAS 27 the requirement to distinguish between pre- and post-acquisition dividends. The Standard now applies the general requirements of IAS 18 *Revenue* and requires that dividends received from subsidiaries, jointly controlled entities and associates be recognised in profit or loss when the entity's right to receive the dividend is established.

To address concerns that the new requirements for recognition of dividends could result in inappropriate recognition of profit, IAS 36 *Impairment of Assets* has been amended by the introduction of a new indicator of impairment.

In assessing whether a full impairment test is required, an entity should consider whether it has recognised a dividend from the investment and evidence is available that:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or
- the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared.

Amendments to IFRS 2: Vesting Conditions and Cancellations

Effective 1 January 2009

The amendments to IFRS 2 *Share-based Payment* clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based payment arrangement.

Vesting conditions are the conditions imposed under a share-based payment arrangement that the counterparty (whether an employee or otherwise) must satisfy in order to receive cash, other assets or equity instruments of the entity. The amendments:

- clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;
- restrict the definition of vesting conditions to include only service conditions and performance conditions; and
- amend the definition of a performance condition to require the completion of a service period in addition to specified performance targets.

All features of a share-based payment arrangement other than service conditions and performance conditions are considered to be non-vesting conditions.

IFRS 2 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity should take into account:

- all non-vesting conditions (i.e. all conditions other than service and performance conditions); and
- vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price).

The revisions to IFRS 2 also clarify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately. Any payments made with the cancellation (up to the fair value of the equity instruments) are accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

If the share-based payment contains a liability component, the liability should be fair valued at the date of cancellation or settlement. Any payment made to settle the liability component should be accounted for as an extinguishment of the liability.

Amendment to IFRS 7: Enhancing Disclosures about Fair Value and Liquidity risk **Effective 1 January 2009**

The amendments to IFRS 7 *Financial Instruments: Disclosures* expand the disclosures required in respect of fair value measurements recognised in the statement of financial position. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced. In its Basis for Conclusions, the IASB makes clear that this hierarchy has relevance only for disclosures, not measurement – there is no link between the fair value measurement hierarchy in IAS 39 and the disclosures required by IFRS 7. The additional disclosures required can be summarised as follows:

- the level in the hierarchy in which fair value measurements are categorised;
- reasons for significant transfers between level 1 and 2 of the hierarchy;
- a reconciliation from beginning to closing balances for level 3 of the hierarchy; and
- if changes to any of the assumptions applied for level 3 measurements, will have a significant effect on the fair value, the nature and extent thereof should be disclosed.

Amendments to the required liquidity risk disclosures

The amendments clarify the scope of items to be included in the maturity analyses required under IFRS 7 by changing the definition of liquidity risk to state that liquidity risk only includes financial liabilities that are settled by delivering cash or another financial asset. This results in the exclusion of financial liabilities that are settled by the entity delivering its own equity instruments or non-financial assets.

Furthermore, the amendments specify different liquidity risk disclosure requirements for derivative and non-derivative financial liabilities:

- for non-derivative financial liabilities (including issued financial guarantee contracts), the maturity analysis is required to show the remaining contractual maturities; and
- for derivative financial liabilities, the maturity analysis is required to include the remaining contractual maturities where these are essential for an understanding of the timing of cash flows. This would be the case for all loan commitments and in circumstances such as an interest rate swap in a cash flow hedge for a variable rate financial instrument.

IAS 1(revised) Presentation of Financial Statements **Effective 1 January 2009**

The text of IAS 1 has been substantially rewritten, with many changes in terminology, including changes to the titles of individual financial statements (e.g. a 'balance sheet' is now referred to as a 'statement of financial position'). The majority of the changes made are not substantive.

The most significant effects of the amendments to the Standard are as follows:

- a new requirement to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (more commonly referred to as the need to produce a third balance sheet);
- the introduction of a statement of comprehensive income for the presentation of 'other comprehensive income' or non-owner movements (e.g. gains and losses on revaluation of property, plant and equipment) separately from the statement of changes in equity;
- all items of income and expense (including those recognised outside of profit or loss) must be presented either:
 - in a single statement (a 'statement of comprehensive income'); or
 - in two statements (a separate 'income statement' and a 'statement of comprehensive income');

- entities are no longer permitted to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement; and
 - new detailed requirements have been introduced regarding the presentation of items of other comprehensive income.
- (iii) the instrument has no other characteristics that would have met the definition of a financial liability; and
- (iv) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of the instrument itself). Profit or loss or change in recognised net assets for this purpose is as measured in accordance with relevant IFRSs.

IAS 23 (revised) Borrowing Costs

Effective 1 January 2009

The amendments to IAS 23 eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

The amendments to IAS 23 are generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised Standard (1 January 2009, or any earlier date designated by the entity). Therefore, if an entity has previously followed an accounting policy of immediately recognising all borrowing costs as an expense:

- it is not required to retrospectively restate its financial statements for borrowing costs incurred on qualifying assets before the effective date of the Standard;
- nor is it required to apply the capitalisation policy to borrowing costs incurred subsequent to the effective date on projects that had commenced (i.e. that had met IAS 23's criteria for commencement of capitalisation) before the effective date.

Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation

Effective 1 January 2009

The amendments to IAS 32 *Financial Instruments: Presentation* address the classification of puttable financial instruments and obligations arising only on liquidation, with the objective of providing a "short-term, limited scope amendment" designed to avoid outcomes arising under the general principles of IAS 32 that were counter-intuitive.

Following the revisions, puttable financial instruments are presented as equity only if all of the following criteria are met:

- (i) the holder is entitled to a pro-rata share of the entity's net assets on liquidation;
- (ii) the instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features;

In addition to the criteria set out above, the entity must have no other instrument that has terms equivalent to (iv) above and that has the effect of substantially restricting or fixing the residual return to the holders of the puttable financial instruments.

The criteria for equity classification for instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation are the same as above except (iii) and (iv) do not apply. Criterion (iii) does not apply because, if there is a component of the instrument that meets the definition of a liability (other than the right at liquidation itself), this will be recognised separately as a financial liability and the instrument will be presented as a compound instrument, i.e. with both liability and equity components. Criterion (iv) does not apply because should any cash flows be paid to the holder of the instrument during the instrument's life, this will reduce the amount ultimately payable at liquidation.

IAS 1 has been amended by the introduction of new disclosure requirements relating to puttable instruments presented as equity.

Amendment to IAS 39 and IFRIC 9: Clarification regarding ending Assessment of Embedded Derivatives

Effective periods on or after 30 June 2009

Following the amendments to IAS 39 in October 2008, which permitted reclassifications out of the FVTPL category for certain held-for-trading financial assets in limited circumstances IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 were amended to make clear that an entity is required to assess whether an embedded derivative is closely related to the host contract at the date of reclassification.

Following amendment, IFRIC 9 makes clear that reassessment is prohibited, except in the following two circumstances, when it is required:

- (a) when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract; and
- (b) when there is a reclassification of a financial asset out of the FVTPL category.

Improvements to IFRSs (May 2008)

Effective date: Various (mostly 1 January 2009)

This was the first Standard published under the IASB's annual improvements process which is intended to deal with non-urgent, minor amendments to Standards. The Standard includes 35 amendments – which are individually dealt with in our **May 2008** newsletter.

IFRIC 13 Customer Loyalty Programmes

Effective 1 July 2008

This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction. Common examples are airline and hotel loyalty schemes and credit card reward schemes. IFRIC 13 addresses the accounting by the entity that grants the award credits. It applies to customer loyalty award credits that:

- entities grant to their customers as part of a sales transaction under IAS 18 *Revenue* (a sale of goods, rendering of services or use by the customer of entity assets); and
- subject to meeting any further qualifying conditions, the customers can redeem for free or discounted goods or services in the future.

IFRIC 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and to allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them. For arrangements falling within its scope, IFRIC 13 explicitly prohibits the alternative treatment of recognising the full consideration received as revenue, with a separate liability for the cost of supplying the awards.

IFRIC 15 Agreements for the Construction of Real Estate

Effective 1 January 2009

The Interpretation addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements within the scope of IFRIC 15 are described as 'agreements for the construction of real estate', and may include the delivery of other goods or services. IFRIC 15 addresses two (related) issues:

- determining whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18; and
- when revenue from the construction of real estate should be recognised.

The Interpretation provides limited additional guidance on the distinction between 'construction contracts' (falling within the scope of IAS 11) and other agreements for the construction of real estate (falling within the scope of IAS 18). Agreements involving construction of real estate will need to be examined carefully to determine whether they should be accounted for in accordance with IAS 11 or IAS 18. Entities most affected are likely to be those that undertake construction of multiple-unit developments.

For some agreements falling within the scope of IAS 18 and involving the supply of goods, the Interpretation has introduced a new concept, i.e. that IAS 18's revenue recognition criteria may be met 'continuously as construction progresses'. In such circumstances, revenue is recognised by reference to the stage of completion of construction, using the percentage of completion method.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Effective 1 October 2008

IFRIC 16 clarifies three main issues, as summarised below:

- whether risk arises from (a) the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from (b) the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. IFRIC 16 concludes that the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation;
- which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. IFRIC 16* concludes that the hedging instrument(s) could not be held by the foreign operation itself; and
- how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment. IFRIC 16 concludes that while IAS 39 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 *The Effects of Changes in Foreign Exchange Rates* must be applied in respect of the hedged item.

* IFRIC 16 has been amended as part of Annual Improvements issued in April 2009 to remove the restriction on the entity that can hold the hedging instrument. Refer to the April 2009 IAS Plus Newsletter.

IFRIC 18 Transfer of Assets from Customers **Effective for transfers made on or after 1 July 2009**

IFRIC 18 was issued to address divergent practice in the accounting by recipients for transfers of property, plant and equipment from 'customers'. For entities with such arrangements, IFRIC 18 is likely to result in deferral of revenue recognition or increased amounts being recognised as revenue, depending on the accounting policy previously adopted.

The Interpretation concludes that the entity receiving the item of property, plant and equipment recognises it in its statement of financial position when it meets the definition of an asset under the *Framework for the Preparation and Presentation of Financial Statements*. The Interpretation emphasizes that the entity must control the asset in order to recognise it, noting that right of ownership may not of itself be sufficient to establish control.

Where an entity determines that the item of property, plant and equipment qualifies for recognition as an asset, the Interpretation then directs the entity to recognise the asset in accordance with IAS 16 *Property, Plant and Equipment*, and therefore to measure its cost on initial recognition at its fair value.

If only one service is included in the agreement (e.g. connecting to the utility network with ongoing goods or services charged at the same rates as for other customers), the entity recognises revenue when that service is performed in accordance with paragraph 20 of IAS 18. If more than one service is identified, the fair value received is allocated between the services, and the recognition criteria of IAS 18 are then applied to each service individually. If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

When an entity receives a transfer of cash from a customer, it must first determine whether the agreement is within the scope of IFRIC 18. If it is, the analysis as to whether the item transferred is an asset of the entity and, if so, how to account for the credit side of the transaction is performed as above.

Available for early adoption for 31 December 2009 year-ends

Note that where Standards or Interpretations are adopted in advance of their effective dates, disclosure of that fact is generally required. Where the Standards and Interpretations discussed below are not adopted for December 2009 year-ends, preparers will need to have regard to the requirements of IAS 8.30, i.e. the requirement to consider and disclose the potential impact of Standards and Interpretations in issue but not yet effective.

Preparers will also need to have regard to local endorsement or other legal processes (see introduction to this newsletter).

IFRS 9 Financial Instruments **Effective 1 January 2013**

This Standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013 with early adoption permitted. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 and IFRS 7. An early adopter of IFRS 9 continues to apply IAS 39 for other accounting requirements for financial instruments within its scope that are not covered by IFRS 9 (e.g. classification and measurement of financial liabilities, recognition and derecognition of financial assets and financial liabilities, impairment of financial assets, hedge accounting, etc.).

All recognised financial assets that are currently in the scope of IAS 39 will be measured at either amortised cost or fair value. A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement. For debt instruments not designated at FVTPL under the fair value option, reclassification is required between FVTPL and amortised cost, or vice versa, if the entity's business model objective for its financial assets changes so that its previous model no longer applies.

When debt instruments are non-recourse, i.e. the lender's claim is limited to specific assets of the borrower, it will be necessary to consider whether the loan only represents contractual cash flows that are payments of principal and interest.

The Standard requires an entity to look through to the underlying assets or cash flows to make this determination. If the terms of the loan give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest the loan cannot be measured at amortised cost.

All equity investments within the scope of IFRS 9 are to be measured on the statement of financial position at fair value with the default recognition of gains and losses in profit or loss. Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value. All derivatives within the scope of IFRS 9 are required to be measured at fair value. This includes derivatives that are settled by the delivery of unquoted equity instruments, however, in limited circumstances cost may be an appropriate estimate of fair value.

IFRS 9 does not retain IAS 39's concept of embedded derivatives for hybrid contracts if the host contract is a financial asset within the scope of IFRS 9. Consequently, embedded derivatives that would have been separately accounted for at FVTPL under IAS 39 because they were not closely related to the financial asset host will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety and the asset as a whole is measured at FVTPL if any of its cash flows do not represent payments of principal and interest as described by the Standard.

Where the receipts under an asset are paid by the issuer in order of priority over other multiple contractually linked instruments the Standard has specific conditions for the cash flows of such instruments to be regarded as payments of principal and interest. An example would be tranching notes issued from a special purpose entity set up to collateralise debt obligations where payments on the tranches are prioritised resulting in each tranche being relatively more senior or more subordinate to other tranches.

The effective date of IFRS 9 is for annual periods beginning on or after 1 January 2013, with early adoption permitted and is required to be applied retrospectively. However, the business model assessment is to be made at the date of initial application (which is the date when an entity first applies IFRS 9).

Also, designation as at FVTPL or FVTOCI, or de-designation of financial instruments that were previously designated as at FVTPL, is to be made on the basis of the facts and circumstances that existed at the date of initial application. Entities adopting the new Standard with an initial application date before 1 January 2012 will be exempt from the requirement to restate prior periods.

IFRS 1 (revised) First-time Adoption of IFRSs Effective 1 July 2009*

The objective of the November 2008 revision of IFRS 1 was to improve the structure of the Standard – no new or revised technical material has been introduced. The revisions are designed to make the Standard clearer and easier to follow by reorganising and moving to appendices most of the Standard's numerous exceptions and exemptions. The improved structure is also intended to better accommodate future changes to the Standard.

The Board has also taken the opportunity to remove out-of-date transitional provisions and make some minor wording amendments.

IFRS 1 (revised) Additional Exemptions for First-time Adopters

Effective 1 January 2010

The amendments to IFRS 1 provide additional exemptions for first-time adopters relating to oil and gas assets and arrangements containing leases.

Exemption for oil and gas assets

The IASB issued *Additional Exemptions for First-time Adopters (Amendments to IFRS 1)*, to permit a first-time adopter that has previously used this basis of accounting to elect to measure the related oil and gas assets at the date of transition to IFRSs on the following basis:

- exploration and evaluation assets at amounts determined under the entity's previous GAAP; and
- oil and gas assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro-rata using reserve volumes or reserve values as of that date.

Entities electing to use the exemption are required to test both exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to IFRSs. The exploration and evaluation assets are tested in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and development and production assets are tested in accordance with IAS 36 *Impairment of Assets*. Any identified impairment losses must be recognised at the date of transition.

*Amended from 1 January 2009 at the December 2008 meeting of the IASB.

Decommissioning liabilities included the cost of property, plant and equipment

If an entity elects to use the deemed cost exemption discussed above for oil and gas assets in the development or production phases, the entity must:

- measure decommissioning, restoration and similar liabilities as at the date of transition to IFRSs in accordance with IAS 37; and
- recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to IFRSs determined under the entity's previous.

Exemption for leases

An additional exemption has been added to provide further relief to certain first-time adopters. The new exemption applies to a first-time adopter who has made an assessment of whether an arrangement contains a lease under its previous GAAP that is consistent with IFRIC 4, but at a date other than that required under IFRIC 4. With the exemption, a first-time adopter will not be required to reassess its determination of whether an arrangement contains a lease under previous GAAP if that previous determination would have given the same outcome as that resulting from the application of IAS 17 *Leases* and IFRIC 4.

Amendments to IFRS 2: Group Cash-settled Arrangements

Effective 1 January 2010

The amendments to IFRS 2: *Share-based Payment* to provide additional guidance on the accounting for share-based payment transactions among group entities. The revised Standard states explicitly that the entity receiving the goods or services will recognise the transaction as an equity-settled share-based payment transaction only if:

- the awards granted are its own equity instruments; or
- it has no obligation to settle the transaction.

In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment.

The entity (or shareholder) responsible for settling the transaction will recognise it as an equity-settled share-based payment only if the transaction is settled in its own equity instruments. In all other circumstances, the transaction will be recognised by the entity that settles the award as a cash-settled share-based payment.

As the classification may be different at the subsidiary and parent level, the amount recognised by the entity receiving the goods or services may differ from the amount recognised by the entity settling the transaction and in the consolidated financial statements. Intragroup repayment arrangements will not affect the application of the principles described above for the classification of group-settled share-based payment transactions.

The scope of IFRS 2 has also been amended to clarify that the Standard applies to all share-based payment transactions, whether or not the goods or services received under the share-based payment transaction can be individually identified. Any unidentifiable goods and services are measured on the grant date as the difference between the fair values of the share-based payment and the identifiable goods and services.

Guidance in these areas was previously provided in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* and as a result, these Interpretations will be withdrawn from the effective date of the amendments.

IFRS 3 (revised) Business Combinations IAS 27 (revised) Consolidated and Separate Financial Statements *Effective 1 July 2009*

IFRS 3 (revised 2008) and IAS 27 (revised 2008) were published as a package in January 2008, together with consequential amendments to other Standards, most notably IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The most significant changes introduced by the revised Standards include the following:

- Costs incurred to effect a business combination (e.g. finder's fees, advisory, legal, accounting, valuation, and other professional or consulting fees) are expensed in the period incurred. (Costs incurred to issue debt or equity securities continue to be recognised in accordance with IAS 32 and IAS 39.)
- Where the acquirer has a pre-existing equity interest in the entity acquired, it remeasures that previously-held interest to fair value as at the date of obtaining control, and recognises any resulting gain or loss in profit or loss.
- The term 'non-controlling interest' (NCI) replaces minority interest. At an acquisition date, the acquirer may choose, on a transaction-by-transaction basis, whether to measure NCI at fair value; or at the NCI's proportionate share of the net identifiable assets of the entity acquired.
- Goodwill is measured at the acquisition date as the difference between:
 - the aggregate of (a) the acquisition-date fair value of the consideration transferred; (b) the amount of any NCI in the entity acquired; and (c) the acquisition-date fair value of any previously-held equity interest in the entity acquired; and
 - the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

- Once control is obtained, all subsequent increases and decreases in ownership interests that do not involve the loss of that control are treated as transactions among owners. Goodwill is not remeasured or adjusted and no gain or loss is recognised on such transaction. Instead, any difference between the change in the NCI and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.
- Consideration for an acquisition, including contingent consideration, is measured at fair value at the acquisition date. Changes resulting from events after the acquisition date (e.g. the acquiree meeting an earnings target or reaching a specified share price) are recognised in profit or loss.
- The revised IAS 27 requires an entity to attribute the NCI's share of profit or loss to the NCI even if this results in the NCI having a deficit balance.
- When a parent ceases to have control of a subsidiary, the parent derecognises all assets, liabilities and NCI at their carrying amount. Any interest retained in the former subsidiary is recognised at its fair value at the date control is lost. Any gain or loss arising on loss of control is recognised in profit or loss.

Other important changes arising from the revision of IFRS 3 include:

- widening the scope to include business combinations between mutual entities and business combinations achieved by contract alone;
- the introduction of specific guidance on whether replacement share-based payment awards are part of the consideration transferred, and measurement of reacquired rights on initial recognition; and
- clarification that an entity needs to reassess the classification of contractual arrangements on acquisition with the exception of insurance contracts and leases (for which the original classification as finance or operating is retained). This is particularly relevant when looking at financial instruments, embedded derivatives and hedging relationships.

The transitional provisions for these Standards are complex, and readers should refer to the Standards for details. IFRS 3(2008) is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier adoption is permitted – although the revised Standard may not be applied in an annual reporting period that begins before 30 June 2007. IAS 27(2008) is effective for annual periods beginning on or after 1 July 2009, with early application permitted.

If an entity applies IFRS 3(2008) before 1 July 2009, it must apply IAS 27(2008) at the same time, and vice versa.

IAS 24 (revised): Related Party Disclosures **Effective 1 January 2011**

The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

The previous version of IAS 24 contained no specific exemption for government-related entities. Many entities, particularly in an environment where government control is pervasive, found it problematic in practice to identify all government-related entities, and to quantify all related party transactions and balances with those entities.

As a result, the amendment to IAS 24 provides a partial exemption from the disclosure requirements of IAS 24 for government-related entities. Specifically, a reporting entity is exempt from the general disclosure requirements of IAS 24 in relation to related party transactions and outstanding balances (including commitments) with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

However, where a reporting entity is exempt from the general disclosure requirements the revised Standard requires the reporting entity to disclose the following information about the transactions and related outstanding balances:

- the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);
- sufficient detail about:
 - the nature and amount of each individually significant transaction; and
 - other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

A further amendment to IAS 24 simplified the definition of a related party, clarified its intended meaning and eliminated a number of inconsistencies.

In summary, the revised definition is based on the following principles:

- in the assessment of a related party relationship, significant influence is regarded as equal to the relationship with key management personnel. It is therefore not as close as a relationship where control or joint control exists;
- two entities that are subject to control or joint control by the same party, are related to each other;
- if one party controls or jointly controls an entity and at the same time has significant influence over another entity, the associate and joint venture are related to each other;
- if two entities are both subject to significant influence by the same entity, the entities are not related to each other; and
- symmetry in the treatment of related party relationships. If the revised definition treats one party as related to a second party, the second party is also treated as related to the first party.

Amendments to IAS 32: Classification of Rights Issues Effective 1 February 2010

Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

Amendments to IAS 39 – Eligible Hedged Items Effective 1 July 2009

The amendments to IAS 39 provide clarification on two issues in relation to hedge accounting.

Identifying inflation as a hedged risk

Inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument. This may be the case where an entity acquires or issues inflation-linked debt. In such circumstances, the entity has a cash flow exposure to changes in future inflation that may be cash flow hedged. The amendments, therefore, do not permit an entity to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge as the Board considers that such a component is not separately identifiable and reliably measurable. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged.

Hedging with options

IAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The amendments make clear that the intrinsic value, not the time value, of an option reflects a one-sided risk and therefore an option designated in its entirety cannot be perfectly effective. The time value of a purchased option is not a component of the forecast transaction that impacts profit or loss. Therefore, if an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise. Alternatively, an entity may choose to exclude time value as permitted by the Standard in order to improve hedge effectiveness. As a result of this designation, changes in the time value of the option will be recognised immediately in profit or loss.

Improvements to IFRSs (April 2009)

Effective date: Various (mostly 1 January 2010)

This is the second omnibus Standard published under the IASB's annual improvements process which is intended to deal with non-urgent, minor amendments to Standards. The Standard includes amendments to 12 IFRSs – which are individually dealt with in our **April 2009** newsletter.

IFRIC 17 Distributions of Non-cash Assets to Owners Effective 1 July 2009

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. This accounting treatment will result in a change in practice in many jurisdictions.

The Interpretation does not apply to distributions of non-cash assets where the asset is ultimately controlled by the same party or parties before and after the distribution (e.g. distributions of non-cash assets between entities under common control) which is the most common circumstance in which such distributions occur.

The Interpretation has resulted in consequential amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the appropriate treatment of the non-cash assets held for distribution.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Effective 1 July 2010

The Interpretation addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as “debt for equity swaps”). The Interpretation concludes that the issue of equity instruments to extinguish an obligation constitutes consideration paid. The consideration should be measured at the fair value of the equity instruments issued, unless that fair value is not readily determinable, in which case the equity instruments should be measured at the fair value of the obligation extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the liability extinguished is recognized in profit or loss.

If the issue of equity instruments is to settle a portion of a financial liability, the entity should assess whether a part of the consideration relates to a renegotiation of the portion of the liability which remains outstanding.

Amendments to IFRIC 14: Prepayment of a Minimum Funding Requirement

Effective 1 July 2011

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

IFRIC 14 (as originally issued) did not consider that a plan surplus may result from a prepayment of future minimum funding contributions and therefore, unintentionally reduced the economic benefits available in accordance with IAS 19.58 arising from voluntary prepayments of minimum funding contributions. If an entity is subject to minimum funding requirements for contributions relating to future benefits, IFRIC 14.20 (as originally issued) limited the economic benefit available in the form of reductions in future contributions to the present value of:

- (a) the estimated future service cost in each year; less
- (b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

Under the amended IFRIC 14.20, if there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions (and, therefore, the surplus that should be recognised as an asset) is comprised of:

- (a) any amount that reduces future minimum funding requirement contributions for future services because the entity made a prepayment (i.e. any amount that the entity has paid before being required to do so); and
- (b) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in that period if there were no prepayment of those contributions as described in (a).

Further, IFRIC 14 clarifies that while the amount calculated under (b) above may be negative for a given period (i.e. the estimated minimum funding requirement contribution for that period exceeds the estimated future service cost for that same period), the total amount calculated under (b) can never be less than zero. Accordingly, the economic benefit available as a reduction in future contributions will correspond, as a minimum, to the amount of the prepayment, if any.

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