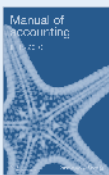


A practical guide to new IFRSs for 2010

February 2010



IFRS technical publications



Manual of accounting – IFRS 2010

Global guide to IFRS providing comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples and extracts from company accounts. The Manual is a three-volume set comprising:

- *Manual of accounting – IFRS 2010*
- *Manual of accounting – Financial instruments 2010*
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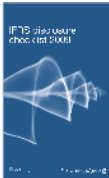
IAS 39 – Derecognition of financial assets in practice

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Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.



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Designed as a practical guide to IFRS for researchers, teachers, students and those studying for professional exams. Includes worked examples and illustrations from real IFRS company accounts.



Illustrative interim financial information for existing preparers (due May 2010)

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Introduction

This publication is a practical guide to the new IFRS standards and interpretations that come into effect in 2010. For three years there was little change to the body of IFRSs since European listed groups were required to apply the standards in 2005. This period of 'bedding down' is now over. The Board issued new standards that took effect in 2009; for 2010 there are a number of significant changes that will impact companies. These changes include new standards and interpretations, and amendments to existing requirements.

The revised IAS 27, 'Consolidated and separate financial statements', and IFRS 3, 'Business combinations', adopt a single consolidation model (the entity model). The revised standards introduce significant changes to the way in which consolidated financial statements are prepared. This has important implications for reported earnings pre- and post-acquisition and for the calculation of goodwill and non-controlling interests (the new name for minority interests); these can now be calculated using a full goodwill or a partial goodwill model. Management will need to consider the accounting for future business combinations carefully before structuring deals, as the way the transaction is undertaken could have a significant accounting impact. The separate amendment to IFRS 1 and IAS 27 concerning the recognition of the cost of investment will help companies transitioning to IFRS.

IFRS 9, 'Financial instruments', deals with the classification and measurement of financial assets and is the first part of the IASB's project to replace IAS 39, 'Financial instruments: Recognition and measurement'. It applies to 2013 year ends but can be adopted with immediate effect.

IFRIC 15, 'Agreements for the construction of real estate', clarifies the contracts that will need to be accounted for in accordance with IAS 18, 'Revenue', and those that will need to apply IAS 11, 'Construction contracts'. This interpretation may have significant earnings implications, as the revenue recognition between the two standards can be quite different and will have wider implications than just for the real estate industry. IFRIC 16, 'Hedges of a net investment in a foreign operation', clarifies two issues on this subject and is unlikely to have a significant impact in practice. IFRIC 17, 'Distributions of non-cash assets to owners', requires distributions of assets other than cash made as a dividend to owners to be measured at fair value in the entity making the distribution. IFRIC 18, 'Transfer of assets from customers', will impact certain sectors, particularly utilities, as it changes how such assets should be recognised when they are transferred to the entity; it also impacts income recognition. IFRIC 19, 'Extinguishing financial liabilities with equity instruments', clarifies the accounting when an entity renegotiates the terms of its debt when the liability is extinguished by the debtor issuing its own equity.

A number of other specific amendments to standards and the IASB's 2009 annual improvements project have affected many of the standards. Some of the changes address inconsistency in terminology between the standards; others will impact certain entities and hence will need careful consideration.

The table below summarises the implementation dates for the new and amended IFRSs that are considered in more detail in the pages that follow.

Standard	Adopted by EU ¹		Pg
Changes that apply from 1 July 2009			
IAS 27 (revised), 'Consolidated and separate financial statements'	✓	Early adoption is permitted, but cannot be adopted without IFRS 3 (revised).	5
IFRS 3 (revised), 'Business combinations'	✓	Early adoption is permitted, but cannot be adopted without IAS 27 (revised).	5
IFRS 1 (revised), 'First-time adoption'	✓	Early adoption is permitted.	N/A
Amendment to IAS 39, 'Eligible hedged items'	✓	Early adoption is permitted.	23
Amendment to IFRS 1, 'First-time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements', on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'	✓		17
IFRIC 16, 'Hedges of a net investment in a foreign operation', effective 1 October 2008	✓	Early adoption is permitted. EU endorsed for 1 July 2009.	35
IFRIC 17, 'Distributions of non cash assets to owners'	✓	Early adoption is permitted.	36
IFRIC 18, 'Transfer of assets from customers', effective 1 July 2009	✓	Early adoption is permitted. EU endorsed for 31 October 2009.	37
<i>Annual improvements 2008</i>			
IFRS 5, 'Non-current assets held for sales and discontinued operations'	✓	Prospective adoption from the date IFRS 5 was first applied. Early adoption permitted if IAS 27 (as amended in May 2008) is also adopted.	N/A
<i>Annual improvements 2009</i>			
IFRS 2, 'Share-based payments'		Early adoption is permitted.	43
IFRIC 9, 'Reassessment of embedded derivatives'		Early adoption is permitted.	44
IFRIC 16, 'Hedges of a net investment in a foreign operation'		Early adoption is permitted.	44
Changes that apply from 1 January 2010			
Amendment to IFRS 2, 'Share based payments – Group cash-settled share-based payment transactions'		Early adoption is permitted.	26
Amendments to IFRS 1, 'First-time adoption', for additional exemptions		Early adoption is permitted.	31
IFRIC 15, 'Agreements for construction of real estate', effective 1 January 2009 although EU endorsed for 1 January 2010	✓	Early adoption is permitted.	33
<i>Annual improvements 2009</i>			
IFRS 5, 'Non-current assets held for sale and discontinued operations'		Early adoption is permitted.	44
IFRS 8, 'Operating segments'		Early adoption is permitted.	44
IAS 1, 'Presentation of financial statements'		Early adoption is permitted.	41

¹ As at February 2010.

Standard	Adopted by EU ¹		Pg
<i>Annual improvements 2009 (continued)</i>			
IAS 7, 'Statement of cash flows'		Early adoption is permitted.	41
IAS 17, 'Leases'		Early adoption is permitted.	41
IAS 18, 'Revenue'		Amendment only affects appendix hence adoption on publication.	42
IAS 36, 'Impairment of assets'		Early adoption is permitted.	42
IAS 38, 'Intangible assets'		Early adoption is permitted.	42
IAS 39, 'Financial instruments: Recognition and measurement'		Early adoption is permitted.	43
Changes that apply from 1 February 2010			
Amendments to IAS 32, 'Financial instruments: Presentation', on classification of rights issues	✓	Early adoption is permitted.	24
Changes that apply from 1 July 2010			
Amendment to IFRS 1, 'First-time adoption', on exemption of new fair value disclosures		Early adoption is permitted.	30
IFRIC 19, 'Extinguishing financial liabilities with equity instruments'		Early adoption is permitted.	39
Changes that apply from 1 January 2011			
Amendment to IAS 24, 'Related party disclosures'		Early adoption is permitted.	28
Amendment to IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'		Early adoption is permitted.	32
Changes that apply from 1 January 2013			
IFRS 9, 'Financial instruments'		Early adoption is permitted.	19

¹ As at February 2010.

Consolidations – IFRS 3 (revised) and IAS 27 (revised)

The revised standard on business combinations was released in January 2008, accompanied by a revised standard on consolidated financial statements. They substantially converge IFRS with US Accounting Standards SFAS 141 (revised), 'Business combinations', and SFAS 160, 'Noncontrolling interests in consolidated financial statements', respectively. The new standards are expected to add to earnings volatility, making earnings harder to predict. They are also likely to:

- Influence acquisition negotiations and deal structures in an effort to mitigate unwanted earnings impacts.
- Potentially impact the scope and extent of due diligence and data-gathering exercises prior to acquisition.
- Require new policies and procedures to monitor and determine changes in the fair value of some assets and liabilities.
- Call for valuation expertise.
- Influence the 'how, when and what' of stakeholder communications.

The table below sets out the potential impact for gains and losses on day 1, measurement of assets and liabilities in the acquisition balance sheet and income statement volatility on day 2 and beyond.

	Impact on earnings at combination date	Impact on net assets/goodwill at combination date	Ongoing earnings impact
Share options given to seller		✓	✓
Existing interest held in target	✓	✓	
Earn-out paid in a fixed number of equity shares		✓	
Earn-out paid in cash or shares to a fixed amount		✓	✓
Transaction costs	✓	✓	
Full goodwill		✓	✓
Contingent liabilities		✓	✓
Settlement of pre-existing relationships	✓	✓	✓
Restructuring costs			✓
Indemnity from seller		✓	✓
Buying or selling minority interest			X ¹

¹Transactions with minority interests resulted in income statement effects under IAS 27, depending on an entity's policy. There will be no effect on income under IAS 27 (revised).

Effective date

Annual reporting periods beginning on or after 1 July 2009. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 12 June 2009.

Questions and answers

1. Scope and applicability
2. Consideration
3. Goodwill and non-controlling interests
4. Asset and liability recognition
5. Other issues
6. IAS 27 (revised) – new proposals on minority interests and disposals

1. Scope and applicability

The business combinations standard represents some significant changes for IFRS. IFRS 3 (revised) is a further development of the acquisition model. The standard now applies to more transactions, as combinations by contract alone and combinations of mutual entities are brought into the standard's scope. Common control transactions and the formation of joint ventures remain outside the scope of the standard. The definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. This change is supplemented by a significant expansion of the application guidance. This may bring more transactions into acquisition accounting.

1.1 When will the new standard affect the financial statements?

IFRS 3 (revised) is applied prospectively to business combinations occurring in the first annual period beginning on or after 1 July 2009. It can be applied early but only to an annual period beginning on or after 30 June 2007. IFRS 3 (revised) and IAS 27 (revised) are applied at the same time. Retrospective application to earlier business combinations is not permitted.

1.2 Has the scope of the standard changed?

Yes, it now includes combinations of mutuals and combinations by contract. This change in scope is not significant for many entities.

1.3 What about common control transactions?

Common control transactions remain outside the scope of the new standard. The IASB has a project on accounting for them, but this is currently on hold until staff resources become available. Entities choose a policy for such transactions. The most common are either applying IFRS 3 by analogy to other business combinations or using predecessor values by analogy to US and other GAAPs with similar frameworks. Entities should continue to use their existing policy for business combinations under common control.

2. Consideration

Consideration is the amount paid for the acquired business. Some of the most significant changes are found in this section of the revised standard. Individual changes may increase or decrease the amount accounted for as consideration. These affect the amount of goodwill recognised and impact the post-acquisition income statement. Transaction costs no longer form a part of the acquisition price; they are expensed as incurred. Consideration now includes the fair value of all interests that the acquirer may have held previously in the acquired business. This includes any interest in an associate or joint venture or other equity interests of the acquired business. If the interests in the target were not held at fair value, they are re-measured to fair value through the income statement.

The requirements for recognising contingent consideration have also been amended. Contingent consideration is now required to be recognised at fair value even if it is not deemed to be probable of payment at the date of the acquisition. All subsequent changes in liability-classified consideration are recognised in the income statement, rather than against goodwill.

2.1 The selling-shareholders will receive some share options. What effect will this have?

An acquirer may wish selling-shareholders to remain in the business as employees. Their knowledge and contacts can help to ensure that the acquired business performs well.

The terms of the options and employment conditions could impact the amount of purchase consideration and also the income statement after the business combination. Share options have a value. The relevant accounting question is whether this value is recorded as part of the purchase consideration, or as compensation for post-acquisition services provided by employees, or some combination of the two. Is the acquirer paying shareholders in their capacity as shareholders or in their capacity as employees for services subsequent to the business combination?

How share options are accounted for depends on the conditions attached to the award and also whether or not the options are replacing existing options held by the employee in the acquired business. Options are likely to be consideration for post-acquisition service where some of the payment is conditional on the shareholders remaining in employment after the transaction. In such circumstances, a charge is recorded in post-acquisition earnings for employee services. These awards are made to secure and reward future services of employees rather than to acquire the existing business.

2.2 Is it true that some business combinations will result in gains in the income statement?

Yes, it is. Any previous stake is seen as being 'given up' to acquire the business. A gain or loss is recorded on its disposal. If the acquirer already held an interest in the acquired entity before acquisition, the standard requires the existing stake to be re-measured to fair value at the date of acquisition, taking any movement to the income statement (together with any gains previously recorded in equity that relate to the existing stake). If the value of the stake has increased, there will be a gain to recognise in the income statement of the acquirer at the date of the business combination. A loss would only occur if the existing interest has a book value in excess of the proportion of the fair value of the business obtained – and no impairment had been recorded previously. This loss situation is not expected to occur frequently.

The standard also requires any gain on a 'bargain purchase' (negative goodwill) to be recorded in the income statement. This is not a change from the previous requirements.

2.3 Some of the payments for the business are earn-outs. How are these accounted for?

It is common for some of the consideration in a business combination to be contingent on future events. Uncertainty might exist about the value of the acquired business or some of its significant assets. The buyer may want to make payments only if the business is successful. Conversely, the seller wants to receive full value for the business. Earn-outs are often payable based on post-acquisition earnings or on the success of a significant uncertain project.

The acquirer should fair value all of the consideration at the date of the acquisition including the earn-out. If the earn-out is a liability (cash or shares to the value of a specific amount), any subsequent re-measurement of the liability is recognised in the income statement. There is no requirement for payments to be probable, which was the case under previous IFRS 3. An increase in the liability for strong performance results in an expense in the income statement. Conversely, if the liability is decreased, perhaps due to under-performance against targets, the reduction in the expected payment will be recorded as a gain in the income statement.

These changes were previously recorded against goodwill. Acquirers will have to explain this component of performance: the acquired business has performed well but earnings are lower because of additional payments due to the seller.

2.4 Does it make a difference whether contingent consideration (an earn-out) is payable in shares or in cash?

Yes, it does make a difference. An earn-out payable in cash meets the definition of a financial liability. It is re-measured at fair value at every balance sheet date, with any changes recognised in the income statement.

Earn-outs payable in ordinary shares may not require re-measurement through the income statement. This is dependent on the features of the earn-out and how the number of shares to be issued is determined. An earn-out payable in shares where the number of shares varies to give the recipient of the shares a fixed value would meet the definition of a financial liability. As a result, the liability will need to be fair valued through income. Conversely, where a fixed number of shares either will or will not be issued depending on performance, regardless of the fair value of those shares, the earn-out probably meets the definition of equity and so is not re-measured through the income statement.

2.5 A business combination involves fees payable to banks, lawyers and accountants. Can these still be capitalised?

No, they cannot. The standard says that transaction costs are not part of what is paid to the seller of a business. They are also not assets of the purchased business that are recognised on acquisition. Transaction costs should be expensed as they are incurred and the related services are received.

The standard requires entities to disclose the amount of transaction costs that have been incurred.

2.6 What about costs incurred to borrow money or issue the shares used to buy the business. Do these also have to be expensed?

No, these costs are not expensed. They are accounted for in the same way as they were under the previous standard.

Transaction costs directly related to the issue of debt instruments are deducted from the fair value of the debt on initial recognition and are amortised over the life of the debt as part of the effective interest rate. Directly attributable transaction costs incurred issuing equity instruments are deducted from equity.

3. Goodwill and non-controlling interests

The revised standard gives entities the option, on a transaction-by-transaction basis, to measure non-controlling interests (previously minority interest) at the value of their proportion of identifiable assets and liabilities or at full fair value. The first will result in measurement of goodwill little different from previous IFRS 3; the second approach will record goodwill on the non-controlling interest as well as on the acquired controlling interest. The 'bargain purchase' guidance remains the same with the requirement to recognise 'negative goodwill' immediately in the income statement.

3.1 Does the type of consideration affect how much goodwill is recognised?

No, it does not. Regardless of how payments are structured, the consideration is recognised in total at its fair value at the date of the acquisition. Paying the same amount in today's values in different ways will not make a difference to the amount of goodwill recognised.

The form of the consideration will not affect the amount of goodwill, but the structure of the payments will have a significant effect on the post-acquisition income statement.

Payments that are contingent and deemed to be part of the acquisition price will be measured at fair value and included in the business combination accounting on day one. Equity instruments that are contingent consideration are not subsequently re-measured. Debt instruments are subsequently re-measured through the income statement.

Changes in the carrying amount of contingent consideration will often not be offset by profits and losses of the acquired subsidiary. A substantial payment to the previous owners may be required if an in-process research and development (IPR&D) project meets key approval milestones. The successful IPR&D project may generate substantial profits over 20 years. The increased amounts due under the contingent consideration arrangement are likely to be recognised as an expense in the income statement before the project generates any revenue at all.

3.2 How is goodwill measured?

Goodwill continues to be a residual. It may well be a different residual under IFRS 3 (revised) compared to the previous standard. This is partly because all of the consideration, including any previously held interest in the acquired business, is measured at fair value. It is also because goodwill can be measured in two different ways.

The first approach is similar to the method under current IFRS: goodwill is the difference between the consideration paid and the purchaser's share of identifiable net assets acquired. This is a 'partial goodwill' method because the non-controlling interest is recognised at its share of identifiable net assets and does not include any goodwill. Goodwill can also be measured on a 'full goodwill' basis, described in the following question.

3.3 What is 'full goodwill'?

Full goodwill means that the non-controlling (minority) interest is measured at fair value, and goodwill is recognised in a business combination. Under previous IFRS 3, minority interest was recognised at the minority's share of net assets and did not include any goodwill. Full goodwill means that non-controlling interest and goodwill are both increased by the goodwill that relates to the non-controlling interest.

3.4 When can full or partial goodwill be recognised?

The standard gives a choice for each separate business combination. An acquirer may either recognise the non-controlling interest in the subsidiary at fair value, which leads to 100% of goodwill being recognised (full goodwill), or the acquirer can recognise the non-controlling interest measured at the non-controlling interest in net assets excluding goodwill. This leads to goodwill being recognised only for the parent's interest in the entity acquired, the same as under previous IFRS 3 (partial goodwill).

This is one of the major differences with the US GAAP standard: under US GAAP, the non-controlling interest must be measured at fair value, and full goodwill is always recognised.

This choice only makes a difference in an acquisition where less than 100% of the acquired business is purchased. Few acquisitions of listed entities are for less than 100% of the equity shares. Business combinations where the entire business is acquired will result in goodwill being calculated in much the same way as it was under previous IFRS 3.

3.5 What is the effect of recognising full goodwill?

Recognising full goodwill will increase reported net assets on the balance sheet. The potential downside is that any future impairment of goodwill will be greater. Impairments of goodwill should not occur with greater frequency.

Measuring non-controlling interest at fair value may prove difficult in practice. However, goodwill impairment testing may be easier under full goodwill, as there is no need to gross-up goodwill for partially owned subsidiaries.

A company planning a cash buy-out of the non-controlling interest in a subsidiary at a future date may want to record the non-controlling interest at fair value and recognise full goodwill in a business combination. If the non-controlling interest is later purchased, there will be a lower difference between the consideration paid for the non-controlling interest and its recorded value, and thus a smaller percentage reduction of equity.

4. Asset and liability recognition

The revised IFRS 3 has limited changes to the assets and liabilities recognised in the acquisition balance sheet. The existing requirement to recognise all of the identifiable assets and liabilities of the acquiree is retained. Most assets are recognised at fair value, with exceptions for certain items such as deferred tax and pension obligations.

4.1 Have the recognition criteria changed for intangible assets?

No, there is no change in substance. Acquirers are required to recognise brands, licences and customer relationships, amongst other intangible assets. The IASB has provided additional clarity that may well result in more intangible assets being recognised, including leases that are not at market rates and rights (such as franchise rights) that were granted from the acquirer to the acquiree.

4.2 What happens to the contingent liabilities of the acquired business?

Many acquired businesses will contain contingent liabilities – for example, pending lawsuits, warranty liabilities or future environmental liabilities. These are liabilities where there is an element of uncertainty; the need for payment will only be confirmed by the occurrence or non-occurrence of a specific event or outcome. The amount of any outflow and the timing of an outflow may also be uncertain.

There is very little change to previous guidance under IFRS. Contingent assets are not recognised, and contingent liabilities are measured at fair value. After the date of the business combination contingent liabilities are re-measured at the higher of the original amount and the amount under the relevant standard, IAS 37.

Measurement of contingent liabilities after the date of the business combination is an area that may be subject to change in the future (see Q&A 5.5).

4.3 If consideration paid and most assets and liabilities are at fair value, what does this mean for the post-combination income statement?

Fair valuation of most things that are bought in a business combination already existed under previous IFRS 3. The post-combination income statement is affected because part of the 'expected profits' is included in the valuation of identifiable assets at the acquisition date and subsequently recognised as an expense in the income statement, through amortisation, depreciation or increased costs of goods sold.

A mobile phone company may have a churn rate of three years for its customers. The value of its contractual relationships with those customers, which is likely to be high, will be amortised over that three-year period.

There may be more charges in the post-combination income statement due to increased guidance in IFRS 3 (revised) on separating payments made for the combination from those made for something else. For example, guidance has been included on identifying payments made for post-combination employee services and on identifying payments made to settle pre-existing relationships between the buyer and the acquiree.

With contingent consideration that is a financial liability, fair value changes will be recognised in the income statement. This means that the better the acquired business performs, the greater the likely expense in profit or loss.

4.4 Can a provision be made for restructuring the target company in the acquisition accounting?

The acquirer will often have plans to streamline the acquired business. Many synergies are achieved through restructurings such as reductions in head-office staff or consolidation of production facilities. An estimate of the cost savings will have been included in the buyer's assessment of how much it is willing to pay for the acquiree.

The acquirer can seldom recognise a reorganisation provision at the date of the business combination. There is no change from the previous guidance in the new standard: the ability of an acquirer to recognise a liability for terminating or reducing the activities of the acquiree in the accounting for a business combination is severely restricted.

A restructuring provision can be recognised in a business combination only when the acquiree has, at the acquisition date, an existing liability, for which there are detailed conditions in IAS 37, the provisions standard.

Those conditions are unlikely to exist at the acquisition date in most business combinations. A restructuring plan that is conditional on the completion of the business combination is not recognised in the accounting for the acquisition. It is recognised post-acquisition, and the expense flows through post-acquisition earnings.

4.5 What might adjust goodwill and over what period?

An acquirer has a maximum period of 12 months to finalise the acquisition accounting. The adjustment period ends when the acquirer has gathered all the necessary information, subject to the one year maximum.

4.6 The seller will be giving an indemnity on a tax exposure. How will this be accounted for?

An indemnity is a promise by the seller to reimburse the buyer for liabilities of uncertain amount or likelihood. The indemnity is recognised as an asset and measured in the same way as the indemnified liability. It is limited to the amount of the indemnified liability. This applies to all indemnities for specific contingencies or liabilities.

5. Other issues

There is additional guidance on accounting for employee share-based payments in the revised standard. It provides additional guidance on valuation as well as determining whether replacement share awards are part of the consideration for the business combination or may be compensation for post-combination services.

The revised standard includes additional guidance with regard to contracts and arrangements of the acquired business at the balance sheet date. Leases and insurance contracts are assessed based on the facts at the time they were entered into (or subject to substantial modification). All other contracts are assessed for classification at the date of the acquisition.

Previous IFRS 3 required deferred tax assets of the acquired business that were not recognised at the date of the combination but subsequently meet the recognition criteria to be adjusted against goodwill. The revised standard will only allow adjustments against goodwill within the one-year window for finalisation of the purchase accounting.

5.1 Are there any changes to deferred tax accounting?

Yes. The main change relates to the recognition of acquired deferred tax assets after the initial accounting for the business combination is complete; this will have an impact on the income statement.

Adjustments to deferred tax assets will only affect goodwill if they are made within the 12-month period for finalising the business combinations accounting and if they result from new information about facts and circumstances that existed at the acquisition date. After the 12-month period, adjustments are recorded as normal under IAS 12, through the income statement or the statement of changes in equity, as appropriate.

5.2 Is there more clarity around classification and reassessment of contracts and other arrangements?

Yes, there is. The previous IFRS 3 was silent on what to do with leases, purchase and sale contracts, insurance contracts and hedges. The revised standard clarifies that all assessments such as the determination of embedded derivatives are made based on the facts at the date of the business combination. The only exceptions are leases and insurance contracts. These are generally assessed and classified based on conditions at the inception date of the contract.

5.3 Will the financial statements grow through additional disclosures?

The financial statements will be longer than before and even more detailed. Some of the new disclosure requirements are:

- the amount of acquisition-related costs expensed and the income statement line item in which that expense is reported;
- the measurement basis selected and the recognised amount of non-controlling interests in the acquiree;

- where non-controlling interest is measured at fair value, the valuation techniques and key model inputs used for determining that value;
- details of transactions that are separate from the acquisition of assets and assumption of liabilities in exchange for the acquiree;
- in a step acquisition, disclosure of the fair value of the previously held equity interest in the acquiree and the amount of gain or loss recognised in the income statement resulting from remeasurement; and
- information about receivables (fair value, gross contractual amounts receivable and best estimate of cash flows not expected to be collected at the acquisition date).

5.4 Do previous transactions need to be restated?

No. Business combinations and transactions with minorities that occurred prior to the adoption of IFRS 3 (revised) and IAS 27 (revised) are not restated. The standards are to be applied prospectively to all transactions for which the transaction date is on or after the first annual period beginning on or after 1 July 2009 or the date of early adoption, if elected.

Some future accounting related to previous business combinations will change once the standard is adopted. Deferred tax assets that are recognised relating to a previously acquired business will be accounted for under the revised standard. Instead of affecting goodwill, they will be recognised in profit or loss (see Q&A 5.1). The purchase or sale of a non-controlling interest that existed at the date of adoption of IFRS 3 (revised) and IAS 27 (revised) may also be different (see Q&A 6.4).

5.5 Are there more changes to come?

Possibly, although the timing of any change is uncertain. The IASB has a project on its agenda to address the treatment of business combinations involving entities under common control. Work will begin on this project when staffing resources at the IASB become available.

The Fair Value Measurement Project (an exposure draft was released in May 2009) is still in progress and might affect the definition of fair value as currently contained in IFRS 3 (revised). There are other ongoing projects on some standards that are linked to business combinations (notably IAS 37 on provisions and IAS 12 on deferred tax) that may affect either the recognition or measurement at the acquisition date or the subsequent accounting.

6. IAS 27 (revised) – minority interests and disposals

The revised consolidation standard moves IFRS to a mandatory adoption of the economic entity model. Current practice under IFRS is overwhelmingly the parent company approach. The economic entity approach treats all providers of equity capital as the entity's shareholders, even when they are not shareholders in the parent company. The parent company approach sees the financial statements from the perspective of the parent company shareholders.

A partial disposal of an interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity under the economic entity approach. Purchase of some or all of the non-controlling interest is treated as a treasury transaction and accounted for in equity. A partial disposal of an interest in a subsidiary in which the parent company loses control but retains an interest (say an associate) triggers recognition of gain or loss on the entire interest. A gain or loss is recognised on the portion that has been disposed of; a further holding gain is recognised on the interest retained, being the difference between the fair value of the interest and the book value of the interest. Both are recognised in the income statement.

6.1 What happened to minority interest?

All shareholders of a group – whether they are shareholders of the parent or of a part of the group (minority interest) – are providers of equity capital to that group. All transactions with shareholders are treated in the same way. What was previously the minority interest in a subsidiary is now the non-controlling interest in a reporting entity.

There is no change in presentation of non-controlling interest under the revised standard. Additional disclosures are required to show the effect of transactions with non-controlling interest on the parent-company shareholders.

6.2 What happens if a non-controlling interest is bought or sold?

Any transaction with a non-controlling interest that does not result in a change of control is recorded directly in equity; the difference between the amount paid or received and the non-controlling interest is a debit or credit to equity. This means that an entity will not record any additional goodwill upon purchase of a non-controlling interest nor recognise a gain or loss upon disposal of a non-controlling interest.

6.3 How is the partial sale of a subsidiary with a change in control accounted for?

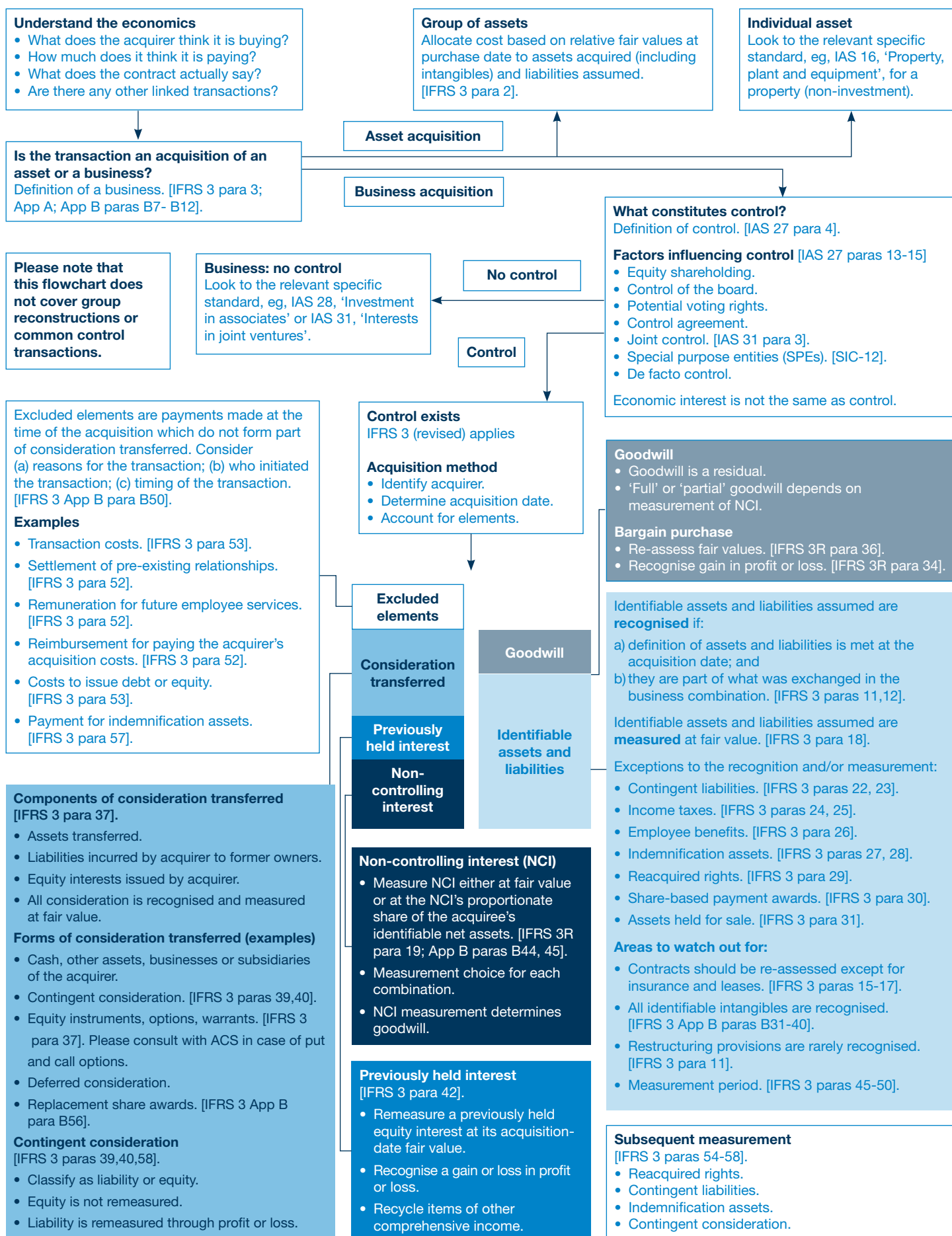
A group may decide to sell its controlling interest in a subsidiary but retain significant influence in the form of an associate, or retain only a financial asset. If it does so, the retained interest is remeasured to fair value, and any gain or loss compared to book value is recognised as part of the gain or loss on disposal of the subsidiary. Consistent with a 'gain' on a business combination (see Q&A 2.2), the standards take the approach that loss of control involves exchanging a subsidiary for something else rather than continuing to hold an interest.

6.4 How does the new standard affect transactions with previously recognised non-controlling interests?

An entity might have purchased a non-controlling interest recognised as part of a business combination under the previous version of IFRS 3 – that is, where only partial goodwill was recognised. Alternatively, an entity might recognise partial goodwill under the new IFRS 3 (revised) and might purchase a non-controlling interest at a later date.

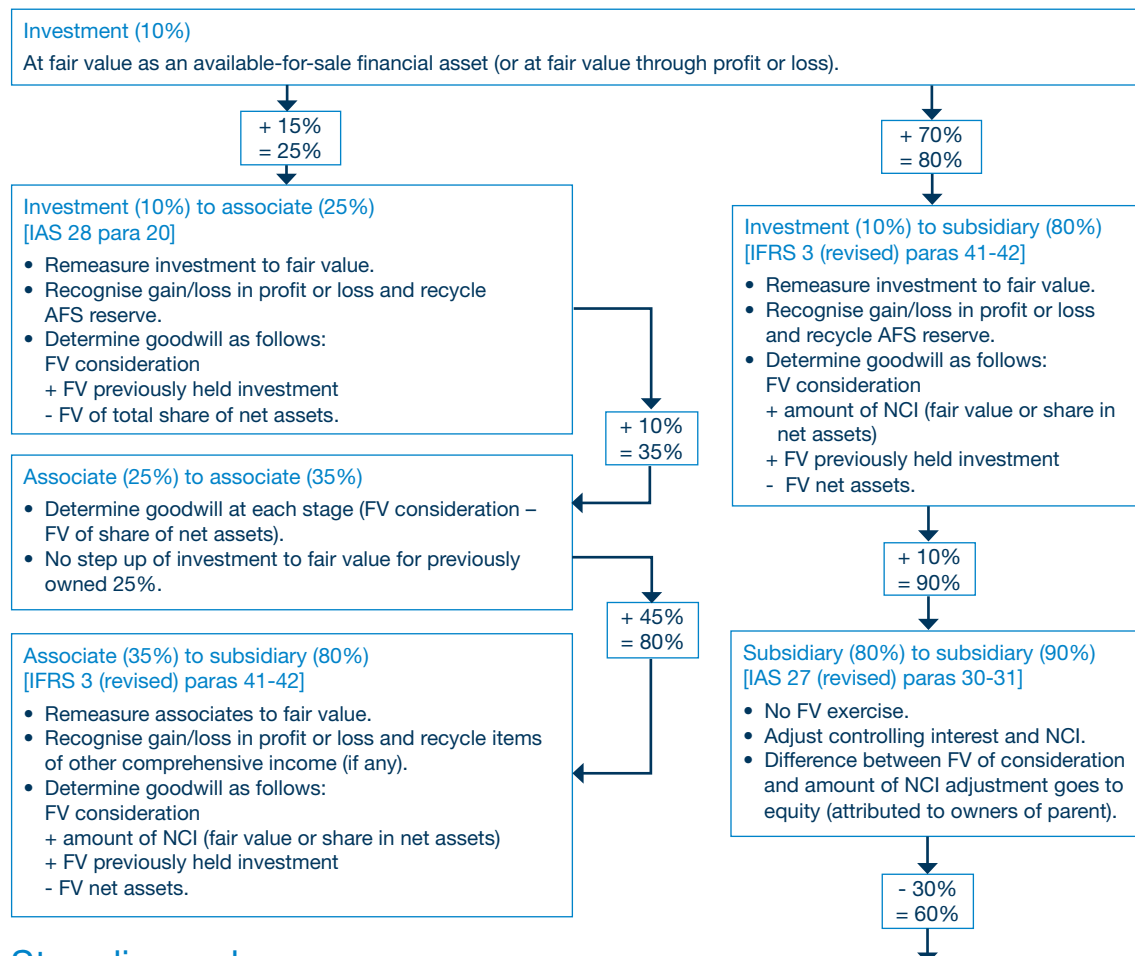
In both cases, no further goodwill can be recognised when the non-controlling interest is purchased. If the purchase price is greater than the book value of the non-controlling interest, this will result in a reduction in net assets and equity. This reduction may be significant.

Principles of business combinations

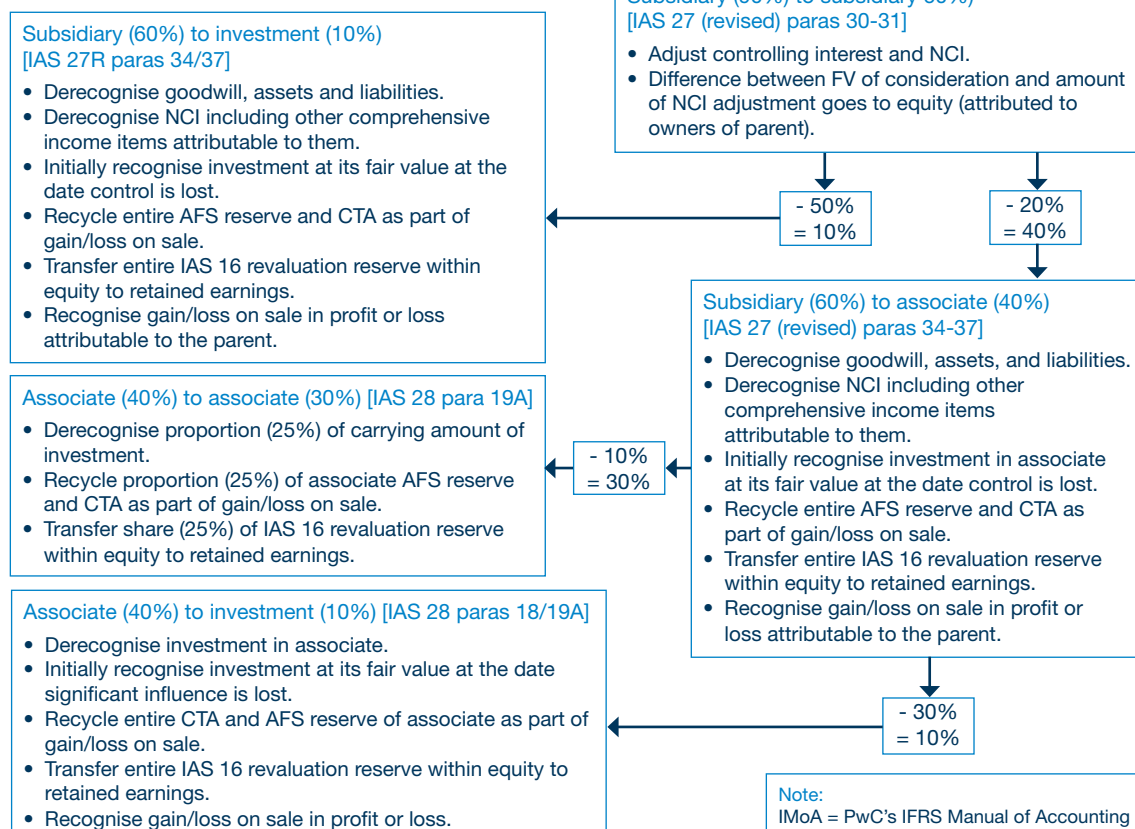


Step acquisitions and disposals

Step acquisitions



Step disposals



Cost of investment – amendments to IFRS 1 and IAS 27

The amendments to IFRS 1, 'First-time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements', bring three major changes:

- The cost of a subsidiary, jointly controlled entity or associate in a parent's separate financial statements, on transition to IFRS, is determined under IAS 27 or as a deemed cost. Deemed cost is either fair value or the carrying amount under the previous accounting practice.
- Dividends from a subsidiary, jointly controlled entity or associate are recognised as income. There is no longer a distinction between pre-acquisition and post-acquisition dividends.
- The cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) is measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent.

Effective date

Reporting periods beginning on or after 1 July 2009. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 23 January 2009.

What was the reason for the amendment?

The main reason for the amendment is to facilitate the transition to IFRS without significantly reducing the relevance of the financial statements. IAS 27 requires an entity to account for its investments at cost or in accordance with IAS 39 in its separate financial statements. For those accounted for at cost, a parent entity could previously recognise income from the investment only to the extent that distributions were received from post-acquisition earnings. Distributions in excess of post-acquisition earnings were recognised as a reduction to the cost of the investment.

Prior to the amendment, IFRS 1 required retrospective application of this method of calculating cost, which was often cumbersome to reconstruct for investments that had been held for several years. With the amendments, a first-time adopter can use a deemed cost, which may be the previous GAAP carrying amount.

If dividends are recognised as income and not as a reduction to the cost of the investment, is there risk of impairment?

Yes. IAS 36 has been amended to identify circumstances when a dividend payment requires impairment testing. These circumstances include:

- Dividends exceeding the total comprehensive income (under IAS 1(revised)) of the subsidiary, jointly controlled entity or associate in the period the dividend is declared; or
- The carrying amount of the investment in the separate financial statements exceeding the carrying amount in the consolidated financial statements of the investee's net assets, including goodwill.

How will this alleviate 'dividend trap' issues?

Prior to the amendment, dividends from pre-acquisition earnings were recognised as a reduction of the cost of an investment. Because they were not recognised as profits by the parent, they were not available for further distribution. Under the new standard, dividends are credited to income and available for distribution, subject to there being no impairment and subject to local legal requirements.

Financial instruments

Classification and measurement of financial assets – IFRS 9

IFRS 9, 'Financial instruments', represents the first milestone in the comprehensive IASB project to replace IAS 39, 'Financial instruments: Recognition and measurement', by the end of 2010. IFRS 9 was published on 12 November 2009 and made available for immediate early adoption.

Effective date

Annual periods starting 1 January 2013. Early adoption is permitted from 12 November 2009 (see detail below).

EU adoption status

Not adopted by the European Commission at the time of going to print.

How does IFRS 9 improve financial reporting?

IFRS 9 simplifies accounting for financial assets as requested by many constituents and stakeholders. In particular, it replaces multiple measurement categories in IAS 39 with a single principle-based approach to classification. IFRS 9 removes complex rule-driven embedded derivative guidance in IAS 39 and requires financial assets to be classified in their entirety. IFRS 9 eliminates the need for multiple impairment models, such that only one impairment model for financial assets carried at amortised cost will be required.

What is in the scope?

IFRS 9 applies to all financial assets within the scope of IAS 39, including hybrid financial instruments with financial assets hosts. IFRS 9 does not apply to financial liabilities and hybrid contracts with other than financial asset hosts.

How are financial assets to be measured?

IFRS 9 requires all financial assets to be measured at either amortised cost or full fair value. Amortised cost provides decision-useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value represents the most relevant measurement basis.

What determines classification?

IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss. If the former, an entity further considers the contractual cash flow characteristics of the instrument.

What is contractual cash flow characteristics test?

A financial asset within a qualifying business model will be eligible for amortised cost accounting if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Any leverage feature increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

What are common features that generally would pass the cash flow characteristics test?

- Unleveraged linkage to an inflation index in the currency in which the financial asset is denominated.
- Multiple extension options (for example, a perpetual bond).
- Call and put options if they are not contingent on future events, and the pre-payment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.
- Interest rate caps, floors and collars that effectively switch the interest rate from fixed to variable and vice versa.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day as long as the rate compensates the lender for the time value of money (for example, an option to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term).

What are common features that generally would fail cash flows characteristics test?

- Linkage to equity index, borrower's net income or other variables.
- Inverse floating rate.
- Call option at an amount not reflective of outstanding principal and interest.
- Issuer is required or can choose to defer interest payments and additional interest does not accrue on those deferred amounts.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day such that the rate does not compensate the lender for the time value of money (for example, an option to pay one-month LIBOR for a three-month term and one-month LIBOR is not reset each month).
- A variable rate that is reset periodically but always reflects a five-year maturity in a five-year constant maturity bond (that is, the rate is disconnected with the term of the instrument except at origination).
- An equity conversion option in a debt host (from a holder perspective).

Are reclassifications permitted?

Classification of financial assets is determined on initial recognition. Subsequent reclassification is permitted only in those rare circumstances when the business model within which the financial asset is held changes. In such cases, reclassification of all affected financial assets is required.

IFRS 9 specifies that changes in business model are expected to be very infrequent, should be determined by the entity's senior management as a result of external or internal changes, should be significant to the entity's operations and demonstrable to external parties.

For example, an entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans; all are held to collect the contractual cash flows.

Another example of a change in the business model is where an entity decides to shut down a line of service (for example, a retail mortgage business). The line of service does not accept new business, and the affected portfolio is being actively marketed for sale.

IFRS 9 indicates that changes in intentions with respect to individual instruments, temporary disappearance of a particular market or transfers of instrument between business models do not represent a change in business model.

What does this mean for equity investments?

Equity investments do not demonstrate contractual cash flow characteristics of principal and interest; they are therefore accounted for at fair value. However, IFRS 9 provides an option to designate a non-trading equity investment at fair value through profit or loss or at fair value through other comprehensive income. The designation is available on an instrument-by-instrument basis and only on initial recognition. Once made, the designation is irrevocable.

All realised and unrealised fair value gains and losses follow the initial designation, and there is no recycling of fair value gains and losses recognised in other comprehensive income to profit or loss. Dividends that represent a return on investment from equity investments will continue to be recognised in profit or loss regardless of the designation.

Can an equity investment be measured at cost where no reliable fair value measure is available?

IFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities but stipulates that, in certain circumstances, cost may be an appropriate estimate of fair value. This may be the case where insufficient recent information is available or where there is a wide range of possible fair value measurements. Cost will not be an appropriate estimate of fair value if there are changes in investee circumstances, markets or wider economy, or if there is evidence from external transactions or for investments in quoted equity instruments. To the extent factors exist that indicate cost might not be representative of fair value, the entity should estimate fair value.

What does this mean for hybrid contracts?

IFRS 9 requires financial assets to be classified in their entirety. Hybrid contracts are those instruments that contain a financial or non-financial host and an embedded derivative. Hybrid contracts within the scope of IFRS 9 – that is, hybrid contracts with financial asset hosts – are assessed in their entirety against the two classification criteria. Hybrid contracts outside of scope of IFRS 9 are assessed for bifurcation under IAS 39. In many cases, hybrid contracts may fail the contractual cash flow characteristic test and should therefore be measured at fair value through profit or loss.

Is fair value option available?

Two of the existing three fair value option criteria currently in IAS 39 become obsolete under IFRS 9, as a fair value driven business model requires fair value accounting, and hybrid contracts are classified in their entirety. The remaining fair value option condition in IAS 39 is carried forward to the new standard – that is, management may still designate a financial asset as at fair value through profit or loss on initial recognition if this significantly reduces recognition or measurement inconsistency, commonly referred to as ‘an accounting mismatch’. The designation at fair value through profit or loss will continue to be irrevocable.

What are transition requirements?

IFRS 9 is effective for annual periods starting 1 January 2013 and is available for early adoption from 12 November 2009. The standard generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012.

If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the IAS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same date.

What happens next?

The IASB has issued an exposure draft on amortised cost and impairment, which proposes an expected cash flow approach (expected loss model) to impairment of financial assets carried at amortised cost. The ED is open for comment until 30 June 2010. It is the second stage in the replacement of IAS 39. The IASB has also established an Expert Advisory Panel, which will advise on operational aspects of the expected loss model.

The IASB is expected to issue an ED on classification and measurement of financial liabilities and an ED on hedging in Q2 2010. The IASB is also expected to seek comments on the FASB’s financial instrument’s ED also expected to be issued in Q2. The two Boards are expected to deliberate the comment letters together and to finalise the new converged accounting guidance for financial instruments by the end of 2010.

Hedging of portions of financial instruments – IAS 39 amendment

The IASB issued an amendment to IAS 39, 'Eligible hedged items', on 31 July 2008. The amendment makes two changes:

- It prohibits designating inflation as a hedgeable component of a fixed rate debt.
- In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk.

Effective date

Reporting periods beginning on or after 1 July 2009. It should be applied retrospectively.

EU adoption status

Adopted by the European Commission on 16 September 2009.

If management issued inflation linked debt, can it hedge the inflation component?

Yes, the contractually specified inflation component of an inflation linked debt can be designated as a hedged item in a cash flow or fair value hedge.

If management uses options to hedge forecast sales in foreign currency, can it still designate them as hedges of one-sided risk?

Yes, options may be designated as hedges of one-sided risk – for example, the foreign exchange risk that forecast sales in foreign currency will be worth less in the functional currency of the entity.

Can these options be perfectly effective hedging instruments?

No. The amendment clarified that only the intrinsic value of the purchase options can be designated as a hedging instrument. Changes in the time value of the options will be posted to profit or loss account.

What should management do if it designated the full fair value of the options as hedging instruments in the past?

Management should re-designate such options in new hedged relationships on an intrinsic value basis prospectively as soon as possible.

Classification of rights issues – IAS 32 amendment

'Classification of rights issues – an amendment to IAS 32' was published on 8 October 2009. The amendment recognises that the previous requirement to classify foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities is not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore creates an exception to the 'fixed for fixed' rule in IAS 32 and requires rights issues within the scope of the amendment to be classified as equity.

Effective date

Annual periods beginning on or after 1 February 2010. It should be applied retrospectively. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 24 December 2009.

What is a rights issue?

A rights issue is used as a means of capital-raising whereby an entity issues a right, option or warrant to all existing shareholders of a class of equity on a pro rata basis to acquire a fixed number of additional shares at a fixed strike price. The strike price is usually set below current market share price, and shareholders are economically compelled to exercise the rights so that their interest in the entity is not diluted. Rights issues are not used for speculative purposes and are required by laws or regulations in many jurisdictions when raising capital.

Why new guidance now?

Rights issues have become popular in the current environment due to liquidity constraints on the markets. Entities listed in different jurisdictions are normally required by laws or regulations to issue rights denominated in respective local currencies. Unfortunately, a fixed strike price in other than the entity's functional currency violates 'fixed for fixed' equity classification criterion in IAS 32 and hence results in the instrument being classified as a derivative liability measured at fair value through profit or loss. Given that rights issues are usually relatively large transactions, this would have a substantial effect on entities' financial statements.

What does the amendment require?

The IASB recognised that classifying foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities was not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore created an exception to the 'fixed for fixed' rule in IAS 32 and required rights issues within the scope of the amendment to be classified as equity.

What is the scope of the new guidance?

The scope of the amendment is narrow and applies only to pro rata rights issues to all existing shareholders in a class. It does not extend to long-dated foreign currency rights issues or foreign-currency-denominated convertible bonds. For these instruments, the option to acquire the issuer's equity will continue to be accounted for as a derivative liability, with fair value changes recorded in profit or loss.

How will this change current practice?

Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Unlike derivative liabilities, equity instruments are not subsequently re-measured at fair value through profit or loss. The accounting therefore becomes less complex, and there is less volatility in profit or loss.

Group cash-settled share-based payment transactions – IFRS 2 amendments

The IASB issued amendments to IFRS 2, 'Group cash-settled share-based payment transactions', in June 2009. The amendments provide a clear basis to determine the classification of share-based payment transactions in consolidated and separate financial statements. The amendments incorporate IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', into IFRS 2. They also expand on the guidance given in IFRIC 11 to address group arrangements that were not considered in that interpretation.

Effective date

Annual periods beginning on or after 1 January 2010. Early adoption is permitted.

EU adoption status

Not adopted by the European Commission at the time of going to print.

What was the reason for the amendments?

The amendments were issued to expand on the guidance in IFRIC 11 on accounting for awards in group situations. IFRS 2 now covers cash-settled awards that will be settled by an entity within the group that does not employ the employees who receive the awards.

How does an entity account for group cash-settled share-based payment arrangements?

Where a parent entity issues a cash-settled award to employees of its subsidiary, the amendments confirm that this will be treated as a cash-settled share-based payment transaction in the parent's separate and consolidated financial statements (the parent entity has granted the award and has the obligation to settle in cash); and as an equity-settled transaction in the subsidiary's financial statements (the subsidiary entity has no obligation to settle the award).

The classification of both cash-settled and equity-settled share-based payment transactions in group situations, in both consolidated and separate financial statements, is summarised in the flow chart below.

What will be the impact of the amendments?

We expect there to be minimal impact on consolidated financial statements because awards should have been correctly accounted for as cash-settled share-based payment arrangements. However, because there is new guidance for group cash-settled awards (historically standards have been silent in this area), subsidiaries may need to account for a change in accounting policy.

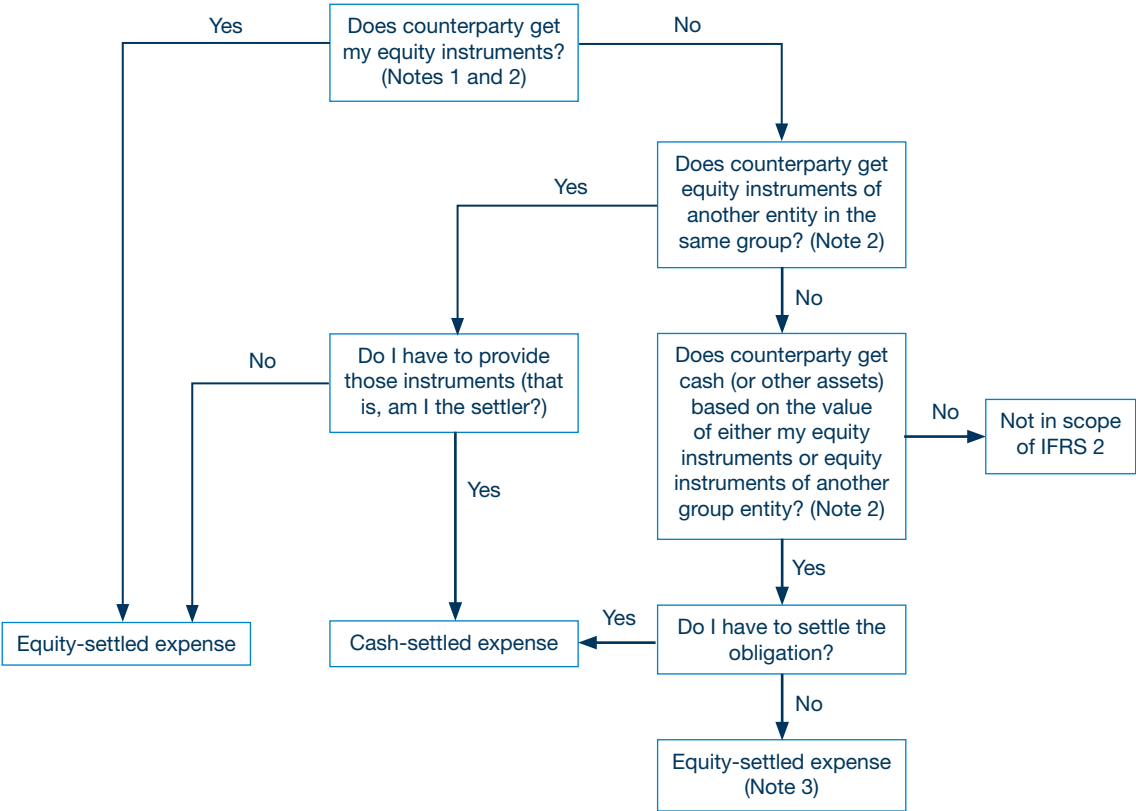
For example, if a subsidiary chose to treat an award granted to its employees by its parent as cash-settled to mirror the accounting treatment in the consolidated financial statements, this will now need to be treated as equity-settled. Management will therefore need to measure the fair value of the award at grant date and transfer the credit to equity. This could involve time and effort in order to look back and determine the fair value of the award at grant date.

Will management need to restate their financial statements?

It depends. The amendments require retrospective adoption, and the financial statements need to reflect the amendments as if they had always been applied. The entity’s previous accounting policy will determine whether or not an entity’s financial statements need to be restated.

As the amendments to IFRS 2 are fully retrospective, any changes in accounting policy will require appropriate disclosure in accordance with IAS 8, ‘Accounting policies, changes in accounting estimates and errors’.

Classification of cash- and equity-settled transactions



- Notes:
- 1 'My equity instruments', include equity instruments of my subsidiaries (non-controlling interests).
 - 2 'Counterparty' includes employees and other suppliers of goods or services even where the goods or services are unidentifiable.
 - 3 For the entity that settles the obligation, treatment will be as equity-settled only if the transaction is settled in equity instruments of that entity (including equity instruments of a subsidiary of that entity). For the entity receiving the goods or services, treatment will be as equity-settled unless there is an obligation to settle in cash or other assets.

Related-party disclosures – IAS 24 amendment

IAS 24, 'Related-party transactions', was amended in November 2009. The revised standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

The previous version of IAS 24 did not contain any specific guidance for government-related entities. They were therefore required to disclose transactions with the government and other government-related entities. This requirement was onerous in territories with pervasive government control; it placed a significant burden on entities to identify related-party transactions and collect the information required to make the disclosures. For example, a government-controlled railway was theoretically required to disclose details of its transactions with the post office. This information was not necessarily useful to users of the financial statements and was costly and time-consuming to collect.

The financial crisis widened the range of entities subject to related-party disclosure requirements. The financial support provided by governments to financial institutions in many countries means that the government now controls or significantly influences some of those entities. A government-controlled bank, for example, would be required to disclose details of its transactions, deposits and commitments with all other government-controlled banks and with the central bank.

Effective date

Annual periods beginning on or after 1 January 2011. Earlier adoption is permitted either for the entire standard or for the reduced disclosures for government-related entities.

EU adoption status

Not adopted by the European Commission at the time of going to print.

What is the definition of a government-related entity?

Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by a government.

What disclosures are government-related entities required to make?

The amendment introduces an exemption from the disclosure requirements of IAS 24 for transactions between government-related entities and the government, and all other government-related entities. Those disclosures are replaced with a requirement to disclose:

- The name of the government and the nature of the relationship.
- The nature and amount of any individually-significant transactions.
- A qualitative or quantitative indication of the extent of any collectively-significant transactions.

What is the impact of the change in disclosure requirements?

This is a significant relaxation of the disclosure requirements and should be of substantial benefit to government-related entities. The complexity and volume of the disclosures in the financial statements and the costs of record-keeping will be reduced. The new disclosures will provide more meaningful information about the nature of an entity's relationship with the government.

Why has the definition of a related party changed?

The previous definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove such inconsistencies and make it simpler and easier to apply.

What is the impact of the amended definition?

While the new definition will make the definition of a related party easier to apply, some entities will be required to make additional disclosures.

The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates and entities with shareholders that are involved with other entities. For example, a subsidiary is now required to disclose transactions with an associate of its parent. Similarly, disclosure is required of transactions between two entities where both entities are joint ventures (or one is an associate and the other is a joint venture) of a third entity. In addition, an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

What next steps should management consider?

Management of government-related entities should consider whether they wish to adopt the amendment early. Early adoption is likely to be attractive for many entities, but management intending to adopt early should also consider the revised disclosure requirements and put in place procedures to collect the required information. EU entities cannot currently apply the amendment because the European Commission has not yet adopted it.

Management of all entities should consider the revised definition to determine whether any additional disclosures will be required and put in place procedures to collect that information.

First-time adoption – IFRS 1 amendment: financial instrument disclosures

The Board has issued an amendment to IFRS 1, 'First-time adoption of IFRS', to provide first-time adopters with the same transition relief that existing IFRS preparers received in the March 2009 amendment to IFRS 7, 'Financial instruments: Disclosures'.

Effective date

Annual periods beginning on or after 1 July 2010. Earlier adoption is permitted. Early adoption is required for a first-time adopter that has a first reporting period that begins earlier than 1 July 2010 in order to benefit from the disclosure relief.

EU adoption status

Not adopted by the European Commission at the time of going to print.

What triggered this amendment?

Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. The relief was provided because the amendments to IFRS 7 were issued after the comparative periods had ended, and the use of hindsight would have been required. The Board therefore permitted entities to exclude comparative disclosures in the first year of application. Certain first-time adopters (for example, those with a first reporting period beginning on or after 1 January 2009) would otherwise be required to make the comparative period disclosures, as first-time adopters do not use the transition provisions in other IFRSs.

The Board has therefore issued an amendment to IFRS 1 to provide first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7. The Board made a consequential amendment to IFRS 7 to remove the wording, 'In the first year of application', and to replace it with date-specific relief for comparative information. Any comparative periods that end before 31 December 2009 are exempt from the disclosures required by the amendments to IFRS 7. The relief applies to disclosures related to both the statement of comprehensive income and the statement of financial position.

Who is affected?

A first-time adopter may use the relief offered under the amendment to the extent its first IFRS financial statements present comparative periods that end before 31 December 2009. This includes any comparative annual periods that end before 31 December 2009 and any year-end comparative statements of financial position as at a date before 31 December 2009. This includes the opening statement of financial position as at the date of transition. Any comparative interim periods (full financial statements and not IAS 34 condensed) that fell within the first annual period for which the amended IFRS 7 disclosures were effective are not exempt.

What action do first-time adopters need to take?

First-time adopters should consider the comparative periods that are being presented in their first IFRS financial statements and determine whether they should take advantage of the disclosure relief offered by this amendment.

First-time adoption – IFRS 1 amendment: oil and gas assets and lease classification

The IASB issued an amendment to IFRS 1, 'First-time adoption of IFRS', to exempt entities that use the full cost method for oil and gas properties from retrospective application of IFRSs; it also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining whether an arrangement contains a lease'.

Effective date

Annual periods beginning on or after 1 January 2010.

EU adoption status

Not adopted by the European Commission at the time of going to print.

What relief does this give oil and gas entities?

Some national accounting requirements require exploration and development costs for oil and gas properties in the development or production phases to be accounted for in cost centres that include all properties in a large geographical area (known as the full cost method). Under this exemption, first-time adopters that have used this method previously can elect to measure those assets on transition to IFRS on the following basis:

- Exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- Assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity is then required to allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

If this exemption is taken, the entity should test those assets for impairment on transition to IFRS.

How does the leasing exemption impact first-time adopters?

Where a first-time adopter has determined at an earlier date whether an arrangement contained a lease in accordance with its previous GAAP (equivalent to the requirement in IFRIC 4), the entity is not required under the exemption to undertake a further reassessment on transition to IFRS. This exemption can be applied as long as the earlier assessment would have resulted in the same outcome as that resulting from applying IAS 17, 'Leases', and IFRIC 4.

Pre-payments of a minimum funding requirement – IFRIC 14

The amendment to IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', was published on 26 November 2009. It removes an unintended consequence of IFRIC 14 relating to voluntary pension pre-payments when there is a minimum funding requirement.

Effective date

Annual periods beginning on or after 1 January 2011; it will apply from the beginning of the earliest comparative period presented. Earlier adoption is permitted.

EU adoption status

Not adopted by the European Commission at the time of going to print.

How does the amendment differ from previous guidance?

Some companies that are subject to a minimum funding requirement may elect to pre-pay their pension contributions. The pre-paid contributions are recovered through lower minimum funding requirements in future years. An unintended consequence of the interpretation, prior to this amendment, was that IFRIC 14 could prevent the recognition of an asset for any surplus arising from such voluntary pre-payment of minimum funding contributions in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances.

Who does the amendment affect?

It will have a limited impact, as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions.

Those affected are companies that:

- have a defined benefit pension plan that is subject to a minimum funding requirement; and
- have prepaid (or expect to prepay) the minimum funding requirement in respect of future employee service, leading to a pension surplus.

What do affected entities need to do?

Such entities should reconsider their accounting in the light of the revised guidance to determine whether an asset for the pre-paid contributions should be recognised. They should assess the impact as early as possible to determine whether the amendment should be adopted before the effective date.

Agreements for construction of real estate – IFRIC 15

IFRIC 15 was issued July 2008 in response to concerns over diversity in practice regarding revenue recognition for real estate construction agreements.

The interpretation provides guidance on determining whether an agreement is within the scope of IAS 11, 'Construction contracts', or is for the sale of goods under IAS 18, 'Revenue'.

Effective date

Annual reporting periods beginning on or after 1 January 2009. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 23 July 2009 for periods beginning after 31 December 2009.

Will the interpretation only impact the real estate industry?

No. Many entities might assume that the interpretation will not apply or will have minimal impact on their current revenue recognition model.

The interpretation clearly does apply directly to entities that enter into agreements for the construction of real estate. However, as the basis for conclusions indicates, the guidance may be applied by analogy to industries other than real estate.

Other industries in which entities apply IAS 11 to the construction of complex machinery and equipment may be affected.

When might this interpretation have an impact?

Entities that have previously recognised revenue from construction activities under IAS 11 will be most significantly affected if IFRIC 15 clarifies that their arrangements are more appropriately accounted for under IAS 18.

How does an entity determine whether to apply IAS 11 or IAS 18?

This will depend on the terms of the agreement and the surrounding facts and circumstances. Judgement will be required with respect to each agreement. The interpretation sets out the following guidance in determining which standard would apply:

- **IAS 11:** IAS 11 applies when an agreement meets the definition of a construction contract. The interpretation clarifies that when a buyer is able to specify the major structural elements of design, either before or during construction, the agreement meets the definition of a construction contract.
- **IAS 18:** An agreement is for the sale of goods when the buyer has only limited ability to influence the major structural elements of design, either before or during construction. In addition, an entity that is responsible only for the assembly of materials supplied by a customer, but not the acquisition of the related materials, generally applies the guidance in IAS 18 for sale of services. Conversely, if an entity is responsible for assembly and the related acquisition of materials, the guidance in IAS 18 for the sale of goods would apply.

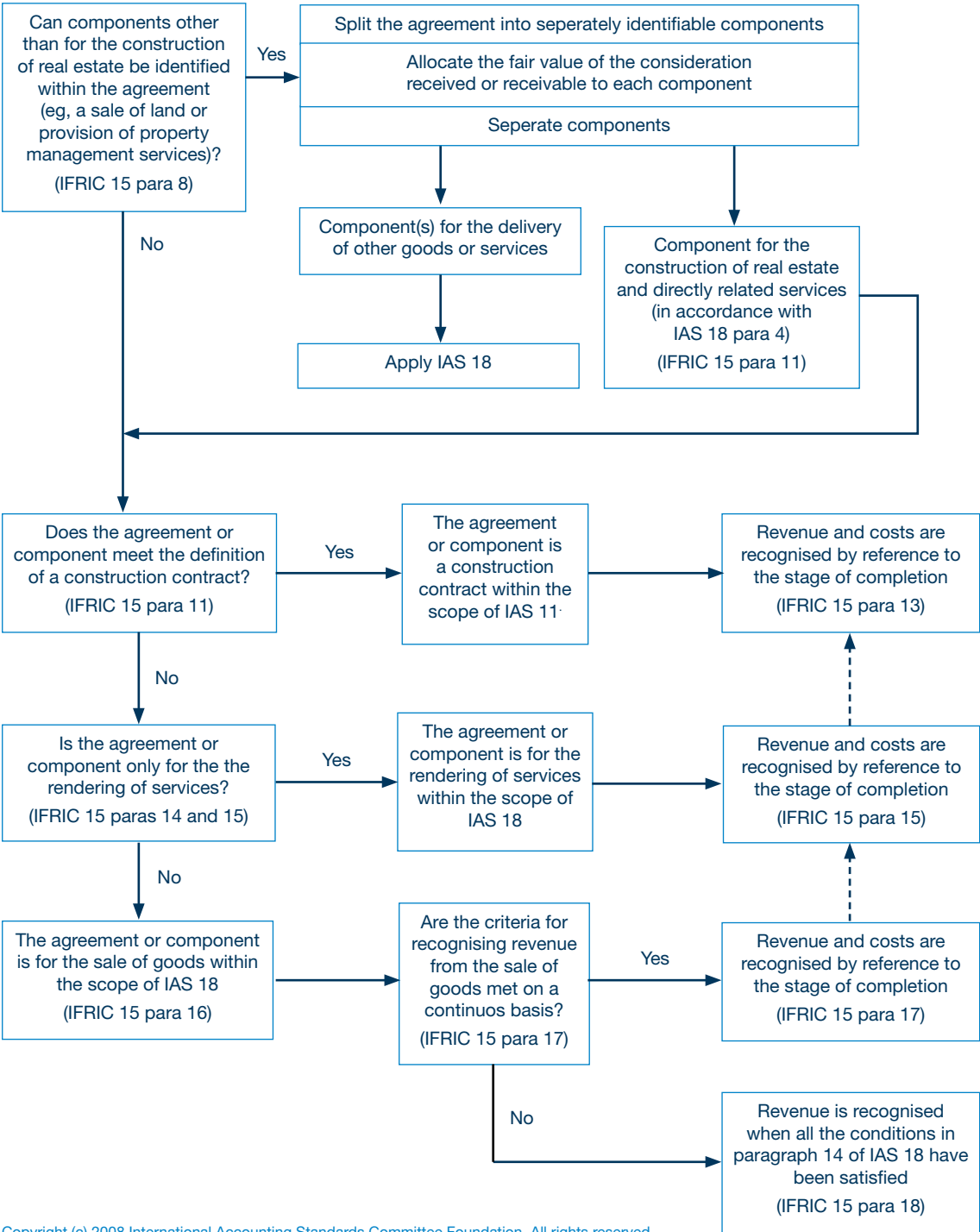
What will the accounting be if the contract is within IAS 18's scope?

Where applying IFRIC 15 causes an entity to conclude that IAS 18 is the appropriate revenue recognition guidance to follow, further consideration is necessary.

The interpretation introduces a 'continuous transfer' revenue recognition concept for the sale of goods where, provided certain criteria are met, revenue may be recognised using the percentage-of-completion method.

Key criteria in applying the continuous transfer model include whether the entity can demonstrate that the significant risks and rewards of ownership transfer to the buyer on a continuous basis and that the entity retains neither continuing managerial involvement nor effective control over the goods sold. The interpretation's basis for conclusions makes it clear that such agreements might not be encountered frequently in practice.

Analysis of a single agreement for the construction of real estate



Hedges of a net investment in a foreign operation – IFRIC 16

IFRIC 16, 'Hedges of a net investment in a foreign operation', was published on 3 July 2008. The interpretation clarifies the following in respect of net investment hedging:

- The risk being hedged should relate to differences in functional currency between any parent (including an intermediate parent) and its subsidiary. The hedged risk cannot relate to the group's presentation currency.
- Hedging instruments may be held anywhere in the group (apart from the subsidiary that itself is being hedged).

Most hedging strategies used in practice will continue to be permitted by the interpretation. Most entities will not therefore face any changes from applying it.

Effective date

Annual reporting periods beginning on or after 1 October 2008.

EU adoption status

Adopted by the European Commission on 4 June 2009 for periods beginning after 1 July 2009.

Distributions of non-cash assets to owners – IFRIC 17

IFRIC 17, 'Distributions of non-cash assets to owners', was issued on 27 November 2008 to clarify how an entity should measure distributions of assets other than cash made as a dividend to its owners. The current standards do not specifically address this issue.

The four main clarifications are:

- A dividend payable should be recognised when appropriately authorised and no longer at the entity's discretion.
- Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option.
- The dividend payable is measured at the fair value of the net assets to be distributed.
- The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss.

Additional disclosures are required if the net assets being held for distribution meet the definition of a discontinued operation under IFRS 5, 'Non-current assets held for sale and discontinued operations'.

Effective date

Annual reporting periods beginning on or after 1 July 2009. Early adoption is permitted. Early adopters would then also be required to early adopt IFRS 3 (revised), 'Business combinations', IAS 27 (revised), 'Consolidated and separate financial statements', and IFRS 5 (amended), 'Non-current assets held for sale and discontinued operations'.

EU adoption status

Adopted by the European Commission on 25 November 2009.

What is the scope of the interpretation?

IFRIC 17 applies to pro rata distributions of non-cash assets, but does not apply to common control transactions.

When does an entity recognise a liability for a dividend payable?

An entity recognises a liability for a dividend payable when the dividend is authorised and no longer at the discretion of the entity. This date will vary by jurisdiction, so the IFRIC further clarified this point in the interpretation.

When does an entity recognise a receipt of a dividend?

IFRIC 17 does not deal with the receipt of dividends, but dividend income is recognised when the shareholder's right to receive payment is established in accordance with IAS 18, 'Revenue'. Determining when a right to receive payment has been established will vary from one jurisdiction to another. However, the accounting for the receipt of dividends should mirror the accounting in the paying entity. The dividend received is therefore recorded at fair value.

Transfer of assets from customers – IFRIC 18

Introduction

IFRIC 18, 'Transfers of assets from customers', was issued on 29 January 2009. It addresses the diversity in practice that has arisen when entities account for assets transferred from a customer in return for connection to a network or ongoing access to goods or services, or both.

Historically some entities have recognised the asset received at its fair value; others at its acquisition cost of nil, or a nominal amount. Entities that recognised the asset at fair value either recognised the related income immediately or over a longer period.

The interpretation requires the transferred assets to be recognised initially at fair value and the related revenue to be recognised immediately; or, if there is a future service obligation, revenue is deferred and recognised over the relevant service period.

Effective date

The guidance applies prospectively to all transfers of assets from customers arising on or after 1 July 2009. Early adoption is permitted provided that the necessary information to apply the interpretation was available at the time assets were transferred.

EU adoption status

Adopted by the European Commission on 27 November 2009.

What transactions are within the scope of IFRIC 18?

IFRIC 18 applies to agreements for the transfer of property, plant and equipment (PPE) from a customer that is to be used to connect the customer to a network or provide the customer with an ongoing supply of goods or services. The guidance also applies where a customer transfers cash to an entity and that cash is to be used to build an asset that connects the customer to a network.

It does not apply to government grants within the scope of IAS 20, 'Accounting for government grants and disclosure of government assistance', or service concessions within the scope of IFRIC 12, 'Service concession arrangements'.

It also does not apply to situations where an entity does not control the transferred asset. In these situations IFRIC 4, 'Determining whether an arrangement contains a lease', and IAS 17, 'Leases', may apply.

What will IFRIC 18 change?

The transferred assets will be recognised initially at fair value; the related revenue will be recognised immediately or, if there is a future service obligation, over the relevant service period. This may be a significant change for some entities, particularly those that have historically recognised these assets at their acquisition cost of nil or at a nominal amount.

To determine when revenue should be recognised, the entity receiving the asset should determine whether the asset has been received in exchange for one or more separately identifiable services. These services include: the connection to the network, ongoing access to the network and/or the supply of goods or services through the network. IFRIC 18 also provides guidance for the separation and recognition of the different components of a transaction.

Is it only utility and IT entities that are affected?

The impact of the guidance may be broader than just the utility and IT outsourcing situations referred to in the examples in the interpretation. Entities in other network industries and other outsourcing entities should also consider whether their accounting is affected by IFRIC 18 for similar transfers of assets.

Extinguishing financial liabilities with equity instruments ('debt for equity swaps') – IFRIC 19

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', was published on 26 November 2009. IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a 'debt for equity swap').

Effective date

Annual periods beginning on or after 1 July 2010. Early adoption is permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented, as adoption in earlier periods would result only in a reclassification of amounts within equity.

EU adoption status

Not adopted by the European Commission at the time of going to print.

Why new guidance now?

Many entities were compelled to renegotiate their debt as it came due, in the current challenging economic climate. Renegotiations would commonly lead either to modification of debt or settlement of the liability by way of issuing equity instruments to the lender. IFRS did not address accounting for such debt for equity swaps before IFRIC 19, and there was diversity in practice. Some recognised the equity instrument at the carrying amount of the financial liability and did not recognise any gain or loss on settlement in profit or loss. Others recognised the equity instruments at their fair value and recorded any difference between that amount and the carrying amount of the financial liability in profit or loss. The financial crisis exacerbated the issue.

What is the scope of new guidance?

IFRIC 19 addresses the accounting by an entity that renegotiates the terms of a financial liability and issues shares to the creditor to extinguish all or part of the financial liability. It does not address the accounting by the creditor; and it does not apply to situations where the liability may be extinguished with equity instruments in accordance with the original terms of the instrument (for example, convertible bonds). The interpretation is further restricted to exclude transactions where the creditor is also a shareholder acting in its capacity as such, or transactions under common control where the transaction in substance represents an equity distribution by, or contribution to, the entity.

What does the interpretation address?

IFRIC 19 addresses the following issues:

- Are equity instruments issued to extinguish a financial liability 'consideration paid'?
- How should an entity initially measure equity instruments issued to extinguish a financial liability?
- How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

What does the interpretation require?

IFRIC 19 considers that equity instruments issued to settle a liability represent 'consideration paid'. It therefore requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. This is consistent with the general approach to derecognition of financial liabilities established by IAS 39. The amount of the gain or loss recognised in profit or loss is determined as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured, the fair value of the existing financial liability is used to measure the gain or loss and to record issued equity instruments.

How will this change current practice?

Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in profit or loss). The amount of the gain or loss should be separately disclosed in the statement of comprehensive income or in the notes.

Annual improvements project 2009

The table below identifies the more significant changes to the standards arising from the 2009 annual improvements project and the implications for management.

Effective date

See final column in table below.

EU adoption status

Not adopted by the European Union at the time of going to print.

Standard/ interpretation	Amendment	Practical implications	Effective date
IAS 1, 'Presentation of financial statements'	<ul style="list-style-type: none"> Clarification of the current/non-current classification of liabilities that are convertible into equity instruments at the option of the holder. 	<ul style="list-style-type: none"> The amendment clarifies that conversion features that are at the holder's discretion do not impact the classification of the liability component of the convertible instrument. 	Annual periods beginning on or after 1 January 2010.
IAS 7, 'Statement of cash flows'	<ul style="list-style-type: none"> The guidance has been amended to clarify that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities. 	<ul style="list-style-type: none"> May impact the classification of expenditure for matters such as exploration activities or internal research activities that have an investing nature but do not result in a recognised asset. Results in an improvement in the alignment of the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position; reduces divergence in practice. 	Annual periods beginning on or after 1 January 2010.
IAS 17, 'Leases'	<ul style="list-style-type: none"> When a lease includes both land and buildings, classification as a finance or operating lease is performed separately in accordance with IAS 17's general principles. Prior to the amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. However, the IASB has concluded that this is inconsistent with the general principles of lease classification, so the relevant guidance has been deleted. A lease newly classified as a finance lease should be recognised retrospectively. 	<ul style="list-style-type: none"> Long leases of land may sometimes be classified as finance leases. An entity should reassess the classification of the land elements of unexpired leases. Where reclassification is necessary, an entity will need to establish if it has the necessary information to apply the new classification retrospectively. If not, it is applied at the date when the entity applies the amendment, using the fair values of the asset and liability on that date, with the difference recognised in retained earnings. 	Annual periods beginning on or after 1 January 2010. Earlier adoption is permitted.

Standard/interpretation	Amendment	Practical implications	Effective date
IAS 18, 'Revenue'	<ul style="list-style-type: none"> An additional paragraph has been added to the appendix to IAS 18, providing guidance on whether an entity is acting as principal or agent. 	<ul style="list-style-type: none"> Limited implications. US and UK GAAP already contain similar guidance, which IFRS reporters are likely to have referred to prior to this amendment. While this amendment formally brings the guidance into IFRS, it should not impact IFRS financial reporting. 	Not applicable. The amendment affects the appendix, which is not part of IAS 18, so the new guidance is applied upon publication.
IAS 36, 'Impairment of assets'	<ul style="list-style-type: none"> For the purpose of impairment testing, the cash-generating unit or groups of cash-generating units to which goodwill is allocated should not be larger than an operating segment (as defined by IFRS 8, 'Operating segments') before aggregation. 	<ul style="list-style-type: none"> Entities that use aggregated operating segments to determine their cash-generating units will be forced to disaggregate them when the amendment becomes effective. This might result in the recognition of an impairment charge. 	<ul style="list-style-type: none"> For annual periods beginning on or after 1 January 2010 subject to EU endorsement.
IAS 38, 'Intangible assets'	<ul style="list-style-type: none"> The amendment removes the exceptions from recognising intangible assets on the basis that their fair values cannot be reliably measured, which has the following impact: <ul style="list-style-type: none"> Intangible assets acquired in a business combination that are separable or arise from contractual or other legal rights should be recognised. Complementary assets may only be recognised as a single asset if they have similar useful lives. The amendment specifies different valuation techniques that may be used to value intangible assets where there is no active market. 	<ul style="list-style-type: none"> More intangible assets will need to be valued and recognised as a result of the removal of this exception. 	<ul style="list-style-type: none"> With respect to the removal of the exception from recognition as a result of the inability to reliably measure fair value, improvement is effective for annual periods beginning on or after 1 July 2009 (or upon adoption of IFRS 3 (revised), if earlier). With respect to valuation techniques, improvement is effective for annual periods beginning on or after 1 July 2009. Early adoption is permitted.

<p>IAS 39, 'Financial instruments: Recognition and measurement'</p>	<ul style="list-style-type: none"> • The scope exemption within IAS 39.2(g) was amended to clarify that it only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does 'not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction'. • Removal of reference to transactions between segments as being hedgeable transactions in individual or separate financial statements. • Clarification that amounts deferred in equity are only reclassified to profit or loss when the underlying hedged cash flows affect profit or loss. • An additional example of a closely related embedded prepayment option in a debt instrument was added to the adoption guidance in IAS 39 AG 30. Wording with respect to the assessment of put and call features in convertible instruments was clarified. 	<ul style="list-style-type: none"> • The amendment eliminates diversity in practice; some entities had concluded that options whose exercise would result in a business combination were out of the scope of IAS 39, as IAS 39.2(g) had previously only referred to 'contracts'. Common examples include mutual buy-out options (put/call arrangements) within joint venture agreements. Entities that considered such options to be outside of the scope of IAS 39 will need to record unexpired contracts at fair value rather than cost when the amendment is first applied. • If hedges between segments are reflected in the segment information provided to the chief operating decision-maker (CODM), as defined in IFRS 8, such information should be reflected in entities' IFRS 8-compliant segment disclosures, even if the IAS 39 hedge accounting criteria are not met. • Little implication if any. It was thought that when a forecast transaction resulted in the recognition of a financial asset or liability, some entities were reclassifying deferred gains or losses over the life of the subsequently recognised transaction rather than when the hedged forecast cash flows affected profit or loss. For example, it is now clear the hedging gain or loss should be recognised over the first three years of the debt when only the first three years of a forecast issuance of a five-year debt were hedged. • The amendments may result in fewer embedded derivatives being recognised. 	<p>Periods beginning on or after 1 January 2010 except for the second amendment (relating to the removal of the reference to segments), which may be applied to periods beginning on or after 1 January 2009.</p> <p>The amendment to IAS 39.2(g) applies prospectively to all unexpired contracts at the date of adoption.</p>
<p>IFRS 2, 'Share-based payment'</p>	<ul style="list-style-type: none"> • IFRS 2's scope is aligned with the revised definition of a business combination in IFRS 3 (revised), 'Business combinations'. The amendment confirms that common control transactions and the contribution of a business on the formation of a joint venture are not within the scope of IFRS 2. 	<ul style="list-style-type: none"> • The amendment achieves consistency between the scope of IFRS 3 (revised) and IFRS 2. 	<p>Annual periods beginning on or after 1 July 2009. Earlier adoption is permitted. In addition, if an entity applies IFRS 3 (revised) for an earlier period, the amendment should also be applied for that earlier period.</p>

IFRS 5, 'Non-current assets held for sale and discontinued operations'	<ul style="list-style-type: none"> • The amendment clarifies that IFRS 5 specifies the disclosures required for assets held for sale and discontinued operations. • Disclosures in other IFRSs do not apply, unless those IFRSs require: <ul style="list-style-type: none"> • disclosures specifically in relation to assets held for sale and discontinued operations; or • disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5. 	<ul style="list-style-type: none"> • Disclosures could be reduced in certain situations. 	Annual periods beginning on or after 1 January 2010. Early adoption is permitted.
IFRS 8, 'Operating segments'	<ul style="list-style-type: none"> • The requirement for disclosing a measure of segment assets is only required when the CODM reviews that information. 	<ul style="list-style-type: none"> • Reduced segment disclosures for those entities whose CODM does not review segment assets. 	Periods beginning on or after 1 January 2010, subject to EU endorsement.
IFRIC 9, 'Reassessment of embedded derivatives'	<ul style="list-style-type: none"> • Clarification provided that IFRIC 9 does not apply to embedded derivatives in contracts acquired: <ul style="list-style-type: none"> • in a business combination within the scope of IFRS 3 (revised); • in a business combination between entities or businesses under common control ; or • as part of the formation of a joint venture. 	<ul style="list-style-type: none"> • Provides clarity on when reassessment of embedded derivatives is required during business combinations/ restructurings. 	Periods beginning on or after 1 July 2009. However, if an entity applies IFRS 3 (revised) for an earlier period, it should apply the amendment for that earlier period and disclose that fact.
IFRIC 16, 'Hedges of net investment in a foreign operation'	<ul style="list-style-type: none"> • Confirms that hedging instrument can be held anywhere in the group including within the entity that is being hedged. 	<ul style="list-style-type: none"> • Increases the number of hedging instruments available for net investment hedging within a group. 	Periods beginning on or after 1 July 2009.

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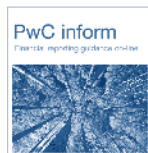
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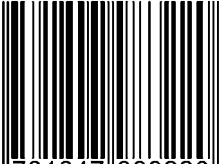
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