

21 February 2008

Status: Draft

Effective date:

Immediate. This FRB updates and replaces IFR Bulletin, Issue 9 2007. It is tailored to 31 December 2007 balance sheet dates.

Accounting impact:
Disclosure



International Financial Reporting Bulletin

New and revised international standards and interpretations in issue at 31 December 2007

Background

For companies with a December year-end, there are a number of new standards and interpretations that will be effective for the first time this year. In addition, there are some new standards and interpretations that are currently in issue, but will not be mandatory until 2008 or 2009.

Standards and interpretations are mandatory for annual periods commencing on or after their "effective date". Subject to transitional arrangements (which may, for example, prohibit early adoption until a specific future date), new standards and interpretations may be adopted early, although early adoption and its effect must be disclosed (see IAS 8.28). If a new accounting standard has been issued, but is not yet mandatory and has not been adopted early, then IAS 8.30 requires disclosure of this fact, and of the possible effects that its application might have on the financial statements.

This IFR Bulletin provides guidance for companies preparing financial statements as at 31 December 2007 in respect of:

- standards and interpretations effective for the first time;
- EU endorsement status for new standards.

New and revised standards effective for 31 December 2007 year-ends		Effective for annual periods beginning on or after
<i>New standard</i>	IFRS 7 <i>Financial Instruments: Disclosures</i>	1 January 2007
<i>Amendment</i>	IAS 1 <i>Presentation of Financial Statements - Capital Disclosures</i>	1 January 2007
<i>Interpretations</i>	IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>	1 March 2006
	IFRIC 8 <i>Scope of IFRS 2</i>	1 May 2006
	IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	1 June 2006
	IFRIC 10 <i>Interim Financial Reporting and Impairment</i>	1 November 2006

New standard effective for 31 December 2007 year-ends

IFRS 7 Financial Instruments:
Disclosures
Effective for annual periods beginning on or
after 1 January 2007

This is a disclosure standard, and so adoption will not affect reported profits. If adopted early, then the associated new guidance included in *IFRS 4 Insurance Contracts* must also be implemented.

IFRS 7 sets out the disclosure requirements for all entities (both banks and other entities). It replaces the specific disclosures for banks previously found in *IAS 30*, along with those for other businesses previously found in *IAS 32*. (In a related amendment, the capital disclosure requirements in *IAS 1* have also been revised. See below.)

The presentation requirements of *IAS 32* are unchanged and remain in force.

Under *IFRS 7*, financial instruments are grouped together by category and then by class of similar instrument. Classes of financial instruments are determined by the reporting entity in order that financial instruments are grouped in a way that is appropriate to the nature of the information to be disclosed, and takes into account the characteristics of the financial instruments. Detailed disclosures are then made based on these classes. The disclosures in *IFRS 7* enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks.

The scope of *IFRS 7* is broader than its predecessors:

- With few exceptions (see below), *IFRS 7* applies to all financial instruments of all entities. However, the level of disclosure depends on the use of financial instruments and the extent of an entity's exposure to risk;
- It also applies to unrecognised financial liabilities such as loan commitments and to contracts to buy or sell certain non-financial items.

IFRS 7 does not apply to the following financial instruments:

- (a) Subsidiaries, associates and joint ventures accounted for in accordance with *IAS 27*, *IAS 28* or *IAS 31*. However it does apply to interests in subsidiaries, associates or joint ventures accounted for under *IAS 39*. It also applies to any related derivatives;
- (b) Rights and obligations accounted for under *IAS 19 Employee Benefits*;
- (c) Acquirer's contracts for contingent consideration in a business combination. This is covered by *IFRS 3*;

**Amendment effective for 31
December 2007 year-ends**

*IAS 1 Presentation of Financial
Statements - Amendment to Capital
Disclosures*
Effective for annual periods beginning on or
after 1 January 2007

- (d) Insurance contracts accounted for under IFRS 4 *Insurance Contracts*;
- (e) Financial instruments, contracts and obligations accounted for under IFRS 2 *Share-based Payment*.

For further information refer to *International Financial Reporting Standard 7 and Pillar 3: Disclosure Made Clear*, published by BDO Stoy Hayward LLP in November 2007, and to IFR Bulletin, Issue 5 2005 and IFR Bulletin, Issue 6 2006.

This is a disclosure requirement, and so adoption will not affect reported profits. New capital disclosure requirements have been implemented by issuing IFRS 7 (see above) and by amending IAS 1 *Presentation of Financial Statements*. IAS 1 now requires entities to disclose:

- (a) the entity's objectives, policies and processes for managing capital;
- (b) quantitative data about what the entity regards as capital;
- (c) whether the entity has complied with any capital requirements; and
- (d) if it has not complied, the consequences of such non-compliance.

The amendment includes guidance and illustrative examples of the disclosures required.

For further information refer to IFR Bulletins, Issue 5 2005 and Issue 6 2006.

**Interpretations effective for 31
December 2007 year-ends**

*IFRIC 7 Applying the Restatement
Approach under IAS 29 Financial
Reporting in Hyperinflationary
Economies*
Effective for annual periods beginning on or
after 1 March 2006

Adopting this standard may affect reported profits and the presentation of assets and liabilities.

IFRIC 7 provides guidance on how to apply IAS 29 in the first period that hyperinflation is identified in the functional currency, and on how to restate the prior period financial statements.

In the first period of hyperinflation, IAS 29 is applied as if the economy has always been hyperinflationary. Non-monetary items measured at historical cost at the start of the earliest period being presented are restated to reflect inflation from the date of acquisition up to the closing balance sheet date of the reporting period.

Deferred tax in the opening balance sheet is restated as follows:

- Deferred tax is re-measured using the revised carrying values calculated above.
- This revised value for deferred tax is then restated for the change in the measuring unit from the opening balance sheet date to the closing balance sheet date.

IFRIC 8 Scope of IFRS 2
Effective for annual periods beginning on or
after 1 May 2006

Adopting this IFRIC may affect reported profits and the presentation of assets, liabilities and equity.

IFRIC 8 confirms that IFRS 2 applies to transactions where the identifiable consideration received (or to be received) appears to be less than the fair value of the equity instruments granted or liability incurred. This indicates that other consideration (i.e. unidentifiable goods or services) have been (or will be) received.

These situations are accounted for as follows:

- The identifiable goods or services received are measured in accordance with IFRS 2;
- The unidentifiable goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received);
- The unidentifiable goods or services received are measured at the grant date.
- For cash-settled transactions, the liability is re-measured at each reporting date until it is settled.;

Further discussion of IFRIC 8 is available in IFR Bulletin, Issue 4 2006.

IFRIC 9 Reassessment of embedded
derivatives
Effective for annual periods beginning on or
after 1 June 2006

Adopting this IFRIC may affect reported profits and the presentation of assets, liabilities and equities.

Under IAS 39, when an entity enters into a contract containing one or more embedded derivatives, it assesses whether these derivatives should be separated from the host contract and accounted for separately.

IFRIC 9 addresses the following issues:

- (a) Should the assessment be made only when the entity first becomes a party to the contract, or should it be re-assessed throughout the life of the contract?
- (b) Should a first-time adopter make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs?

The requirements are as follows:

Reassessment

- The assessment as to whether a derivative should be separated from its host contract and accounted for as a derivative is made when the entity first becomes a party to the contract;
- Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

First time adoption

- A first-time adopter assesses whether an embedded derivative is required to be separated from the host contract on the basis of conditions that existed when it first became a party to the contract;
- A remeasurement is only carried out if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

IFRIC 10 Interim Financial Reporting and Impairment Effective for annual periods beginning on or after 1 November 2006

Although the title of this IFRIC refers to interim financial statements, the measurement rules in it will affect all subsequent financial statements.

The issue addressed by IFRIC 10 is an apparent conflict between IAS 34 *Interim Financial Reporting*, and IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 36 *Impairment of Assets*.

IAS 36 and IAS 39 require an entity to assess goodwill, and investments in equity instruments and financial assets, for impairment annually. IAS 34 requires the application of the same accounting policies in interim financial statements as in annual financial statements. It also notes that the frequency of an entity's reporting (quarterly, half yearly or annual) should not affect the measurement of its annual results.

Impairments of goodwill are prohibited from being reversed, while impairments of equity investments and other financial assets classified as Available for Sale are prohibited from being reversed through the income statement. In consequence, it would appear possible, based on IAS 36 and 39, for an entity that reports half yearly, where certain of its assets are impaired at the half year but where that impairment has reversed by the financial year end, to report different amounts in its annual financial statements in comparison with an entity that reports only on an annual basis in the same circumstances, contrary to IAS 34.

The IFRIC concluded that the guidance for impairment set out in IAS 36 and IAS 39 should take precedence over the guidance in IAS 34, and that it would be possible for the frequency of reporting to affect amounts reported in annual financial statements.

It should be noted that IFRIC 10 states specifically that the consensus reached should not be applied to any other areas of conflict between IAS 34 and other standards.

New and revised standards issued but not effective for 31 December 2007 year-ends			Effective for annual periods beginning on or after
<i>New standard</i>	IFRS 8	<i>Operating Segments</i>	1 January 2009
<i>Revised and amended standards</i>	IFRS 3	<i>Business Combinations</i>	1 July 2009
	IFRS 2	<i>Share-based Payment - Vesting Conditions and Cancellations</i>	1 January 2009
	IAS 1	<i>Presentation of Financial Statements - A Revised Approach</i>	1 January 2009
	IAS 23	<i>Borrowing Costs</i>	1 January 2009
	IAS 27	<i>Consolidated and Separate Financial Statements</i>	1 July 2009
<i>Interpretations</i>	IFRIC 11	<i>IFRS 2 Group and Treasury Share Transactions</i>	1 March 2007
	IFRIC 12	<i>Service Concession Arrangements</i>	1 January 2008
	IFRIC 13	<i>Customer Loyalty Programmes</i>	1 July 2008
	IFRIC 14	<i>IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2008

New Standard issued but not effective for 31 December 2007 year-ends

IFRS 8 Operating Segments
Effective for annual periods beginning on or after 1 January 2009

Standards, amendments and interpretations in issue at 31 December 2007 but not yet effective are summarised below.

This is a disclosure standard, and adoption will not affect reported profits. It replaces IAS 14.

The objective of IFRS 8 is to disclose information to enable users to evaluate the nature and financial effects of the business activities in which an entity engages and the economic environments in which it operates.

IFRS 8 aims to view the entity's performance through the eyes of the "Chief Operating Decision Maker" (CODM). The term "Chief Operating Decision Maker" refers to a function, not necessarily an individual. Consequently, it may be the chief operating officer; alternatively it may be a group of directors. The disclosures are based on the management reports used by the CODM to allocate resources and assess performance. Segments are based on the reporting components identified

by management, and the reports are drawn up using the management's own internal accounting policies rather than those used for the statutory accounts.

As before, reportable segments are based on a size criteria. These are that a segment should be reported if it exceeds one or more of the following:

- 10% of total segment revenues, both internal and external; or
- 10% of total segment profits, or 10% of total segment losses; or
- 10% of assets.

In a change from IAS 14, operating segments generating most of their revenues from internal trade may still qualify as reporting segments. Internal sales are taken into account when identifying reportable segments to assist users in understanding how the business is integrated.

As a minimum the segment report will disclose net profit and total assets, but it will also include revenues, interest income, interest expense, amortisation, depreciation, share of associates and joint ventures, tax, liabilities, investments, and additions to non-current assets if these items are included in the management report to the CODM.

There is no longer a requirement for two sets of reports based on product and on location. However, some additional entity-wide disclosures must be made. These are:

- A geographical break-down of revenues and non-current assets by:
 - Country of domicile, and
 - All other countries. Any material countries should be disclosed separately;
- Customers accounting for more than 10% of external revenues should be disclosed.
 - For the purpose of this disclosure, a group of customers under common control is counted as one.
 - The name of the customer need not be disclosed.

The disclosure requirements for interim reports have also been increased.

Further discussion of IFRS 8 is available in IFR Bulletin, Issue 1 2007.

Revisions and amendments issued but not effective for 31 December 2007 year-ends

Revision of IFRS 3 Business Combinations

Effective for annual periods beginning on or
after 1 July 2009

This revision to IFRS 3 is part of the convergence project between IFRS and US GAAP. There are some key differences between the revised standard and existing practices. These differences are summarised below:

- All acquisition costs are charged to profit or loss;
- An acquisition is only recognised at the point that control is acquired:

- Equity interests held before acquisition are revalued when control is achieved, with gains & losses recognised in profit or loss.
- Subsequent increases (and decreases without losing control) are accounted for within equity;
- Non-controlling interests (minority interests). These can be measured at either:
 - the non-controlling interest's proportion of the fair value of the net assets (which is the existing method); or
 - the fair value of the non-controlling interest's proportionate interest (which will include goodwill attributable to their interest);
- Contingent consideration is measured at fair value as at the date of acquisition. All subsequent measurement changes are recognised in profit or loss;
- Where rights are re-acquired (e.g. the acquired company was previously a licensee) then re-acquisition will give rise to a gain or loss, an adjustment to the purchase price, and an intangible asset;
- All contractual arrangements are re-assessed at acquisition, except for insurance contracts and leases.

There are a number of consequential amendments to other standards that must be applied when IFRS 3 is adopted.

This amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted, provided that IAS 27 (as amended in 2008, see below) is applied at the same time.

However, these standards have not yet been endorsed for use in the European Union. As they conflict with existing endorsed standards, they cannot be adopted by EU listed entities ahead of formal EU endorsement.

Further discussion of this revision to IFRS 3 is available in IFR Bulletin, Issue 5 2008.

*Amendment to IFRS 2 Share-based
Payment - Vesting Conditions and
Cancellations*

Effective for annual periods beginning on or
after 1 January 2009

IFRS 2 as amended distinguishes between:

- **vesting conditions**, which comprise service conditions and market and non-market performance conditions. These relate to the goods or services that the entity is entitled to receive from the counterparty; and
- **non-vesting conditions**, which are other conditions that must be satisfied before the counterparty becomes entitled to their benefits. The difference is that these do not relate to the entity receiving goods or services. An example would be a requirement for an employee to make contributions towards the exercise price by way of monthly deductions from payroll, and also the requirement for the entity to keep the plan open.

This amendment relates to non-vesting conditions, which were previously not covered by IFRS 2. It requires entities to take non-vesting conditions into account when calculating the fair value of share options. (However, the fair value of an award should not be reduced for the possibility that the scheme might be withdrawn before the awards vest.)

As with market vesting conditions, an expense must be recognised irrespective of whether any non-vesting conditions are met.

Where the entity or the counterparty can choose whether to meet a non-vesting condition (e.g. the entity maintaining the scheme or an employee making monthly contributions into an SAYE scheme), any failure to meet that non-vesting condition is treated as a cancellation with immediate recognition of the balance of the expense to be charged.

This amendment may affect existing awards as follows:

- the fair value of options awarded in the past may need to be revised to take into account the effect of non-vesting conditions;
- a prior year adjustment may be needed on adoption of this amendment in respect of a failure to meet non-vesting conditions that would now be accounted for as a cancellation.

The Amendment is effective for accounting periods beginning on or after 1 January 2009, is fully retrospective, and early adoption is permitted. Although this amendment has not yet been endorsed for use in the European Union, it is consistent with existing endorsed standards and so adoption before endorsement will normally be permitted.

Further discussion of this revision to IFRS 3 is available in IFR Bulletin, Issue 4 2008.

*Amendments to IAS 1 Presentation
of Financial Statements - A Revised
Approach*

Effective for annual periods beginning on or
after 1 January 2009

The revised IAS 1 introduces a single “statement of comprehensive income” incorporating both the profits and losses that have traditionally been reported in the income statement and other gains and losses that are currently reported in the Statement of Recognised Income and Expense or the Statement of Changes in Equity. As a result, the “statement of comprehensive income” reports all non-owner changes in equity. Other non-owner changes in equity include revaluations, actuarial gains and losses, translation gains and losses on foreign subsidiaries, remeasuring available for sale financial assets, and the effective portion of gains and losses on cash flow hedges.

The IASB prefers the concept of a single statement of changes in equity, but acknowledges that some entities may prefer to report realised and unrealised income and expenses separately. Therefore, instead of the single statement, an entity may produce two statements:

- an income statement (for the profit for the year); and
- a statement of comprehensive income (for all other non-owner changes in equity).

The revised statement of changes in equity only reports transactions with owners (e.g. capital raised and dividends paid) and prior period restatements. It will not report non-owner income and expenses.

In addition, the balance sheet will be renamed the statement of financial position and the cash flow statement will become the statement of cash flows.

However, an entity may use different titles to name their primary financial statements.

Revision of IAS 23 Borrowing Costs
Effective for annual periods beginning on or
after 1 January 2009

The current version of IAS 23 permits two approaches to borrowing costs. The benchmark treatment is to charge them as an expense in the period in which they are incurred, with an allowed alternative treatment being to add borrowing costs to the carrying value of qualifying assets. The latest revision to IAS 23 requires interest to be capitalised in certain circumstances.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be added to the cost of that asset. Borrowing costs are capitalised using either the actual interest rate charged on funds borrowed specifically to construct an asset, or the weighted average cost of general borrowings. Borrowing costs are capitalised during the period in which the asset is being prepared for use.

Other borrowing costs are recognised as an expense.

Qualifying asset

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Eligible borrowing costs

Borrowing costs include interest, the amortisation of related discounts and premiums, and ancillary costs incurred in connection with the arrangement of overdrafts and borrowings. They may be the actual borrowing costs of funds borrowed to finance the project, or a capitalisation rate can be used based on the weighted average borrowing costs for the period.

Initial adoption

The requirement to capitalise borrowing costs applies to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised standard (which is the start of the first annual period beginning on or after 1 January 2009). It is not required to be applied retrospectively.

Alternatively, an entity is permitted to designate any date before the effective date of the revised standard, and to apply the new requirements to all qualifying assets for which the commencement date for capitalisation is on or after that date.

Further discussion of IAS 23 Revised is available in IFR Bulletin, Issue 4 2007.

*Revision of IAS 27 Consolidated and
Separate Financial Statements*
Effective for annual periods beginning on or
after 1 July 2009

This standard has been revised in order to be consistent with the revised version of IFRS 3. Both revised standards are part of the convergence project between the IASB and the US FASB.

The revisions to IAS 27 are not as far reaching as those to IFRS 3. However, whereas the revisions to IFRS 3 are only mandatory for business combinations occurring in the future, the revisions to IAS 27 will affect the way that existing subsidiaries will be accounted for in consolidated accounts. Key changes are summarised below.

Acquisitions and disposals that do
not result in a change of control

Changes in a parent's interest in a subsidiary are accounted for as transactions with shareholders. Differences between the consideration paid or received and the interests acquired or disposed of are recognised directly in equity. Goodwill is not re-measured.

Loss of control

When control is lost all assets, liabilities and non-controlling interests are derecognised. Any interest retained in the former subsidiary is measured at fair value as at the date that control is lost. Gains or losses are recognised in profit or loss.

Non-controlling interests in loss-
making subsidiaries

"Total comprehensive income" (see IAS 1 Revised above) is allocated to non-controlling interests in proportion to their interest in the subsidiary, even if that results in a deficit balance on the non-controlling interest in the balance sheet. This compares to the current approach, where a debit balance is only recorded for a minority interest where the minority has a binding obligation, and is able to make an additional investment, to cover its share of the losses.

Related amendments to IAS 28
Investments in Associates and IAS 31
Interests in Joint Ventures

When significant influence is lost over an associate, then a gain or loss arises which is recorded in the income statement. This may arise where the investment falls to be accounted for in accordance with IAS 39, or where the associate becomes a joint venture or subsidiary. The gain or loss is calculated as the difference between the sum of the proceeds received and the carrying value of any retained interest, and the carrying amount of the associate at the date that significant influence is lost.

The loss of joint control over an interest in a joint venture is dealt with in a similar way.

This amendment is effective for annual reporting periods beginning on or after 1 July 2009. Earlier application is permitted.

However, this standard has not yet been endorsed for use in the European Union. As it conflicts with an existing endorsed standard, it cannot be adopted within the EU ahead of formal EU endorsement.

Further discussion of this revision to IAS 27 is available in IFR Bulletin, Issue 5 2008.

**Interpretations issued but not
effective for 31 December 2007
year-ends**

IFRIC 11 IFRS 2 Group and Treasury
Share Transactions
Effective for annual periods beginning on or
after 1 March 2007

IFRIC 11 provides guidance as to whether certain share-based payment transactions should be classified as “equity settled” or “cash settled”.

Adopting this IFRIC may affect which member of a group bears the cost of a share-based transaction and the presentation of liabilities and equity.

Three situations are addressed.

- 1 An entity grants rights in its own equity instruments to its employees. The entity either chooses or is required to buy the equity instruments from another party in order to satisfy its obligations.

The IFRIC concluded that any share-based payment transactions in which an entity receives services as consideration for its own equity instruments is accounted for as equity-settled.

This applies regardless of whether the entity:

- chooses or is required to buy those equity instruments from another party; or
 - the employee’s rights were granted by the entity itself or by its shareholder(s); or
 - the arrangement was settled by the entity itself or by its shareholder(s).
- 2 A parent grants rights to its equity instruments directly to the employees of its subsidiary. The parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments.

The IFRIC concluded that, provided that the arrangement is accounted for as equity-settled in the consolidated financial statements, then the subsidiary accounts for the services received as an equity-settled share-based payment transaction. The corresponding increase in equity is recognised as a contribution from the parent.

- 3 A subsidiary grants rights to equity instruments of its parent to its employees. The subsidiary (not the parent) has the obligation to provide its employees with the equity instruments.

The IFRIC concluded that, in its own accounts, the subsidiary accounts for the transaction with its employees as a cash-settled share-based payment transaction as the award is for equity instruments of another entity, not those of the subsidiary. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.

For further information refer to IFR Bulletin, Issue 7 2006.

*IFRIC 12 Service Concession
Arrangements*

Effective for annual periods beginning on or
after 1 January 2008

In some countries, governments have introduced contractual service arrangements to attract private sector participation in the financing, development, operation and maintenance of infrastructure.

IFRIC 12, which addresses the accounting approach to be followed for certain of these arrangements, is the output from one of the longest and most demanding projects undertaken by the IFRIC. It interprets 14 international standards and amends 2 others, with the main text being accompanied by two appendices, two information notes, three illustrative examples and a lengthy basis for conclusions.

The interpretation refers to the public sector entity that awards the concession as the grantor and the private sector entity that provides the services as the operator.

If this IFRIC is adopted by an operator in a service concession arrangement, then infrastructure assets forming part of that arrangement that are not controlled by the operator will cease to be recognised as assets on the operator's balance sheet. Instead, depending on the terms of the arrangement, the operator will recognise either a financial asset or an intangible asset (or both).

An arrangement within the scope of IFRIC 12 typically involves the operator constructing or upgrading the infrastructure used to provide the public service, and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the management.

Other common features are:

- (a) the grantor is a public sector entity;
- (b) the operator is responsible for at least some of the management and is not merely an agent of the grantor;
- (c) the contract sets the initial price and regulates price revisions over the period of the arrangement;
- (d) the operator is obliged to hand over the infrastructure to the grantor at the end of the arrangement, for little or no consideration.

The specific scope of IFRIC 12 are public-to-private service concession arrangements where:

- (a) the grantor controls or regulates the services provided by the operator; and
- (b) the grantor controls any significant residual interest in the infrastructure at the end of the arrangement.

IFRIC 12 specifies the treatment to be followed by the operator, not by the grantor.

IFRIC 12 addresses the following issues:

- Treatment of the operator's rights over the infrastructure;
- Recognition and measurement of consideration;
- Construction or upgrade services;
- Operation services;
- Borrowing costs;
- Subsequent accounting for any financial assets or intangible asset; and
- Items provided to the operator by the grantor.

In the financial statements of the operator, service concession arrangements are accounted for as follows:

Infrastructure assets

Infrastructure assets are not recognised as property, plant and equipment, as those assets are not controlled by the operator. Instead, depending on the terms of the arrangement, the operator recognises either a financial asset or an intangible asset (or both).

A financial asset is recognised to the extent that the operator has an unconditional right to receive cash or another financial asset from, or at the discretion of the grantor for the construction services. This will be the case where the grantor guarantees to pay the operator either a) specified or determinable amounts, or b) the shortfall, if any, between the amounts received from users of the public service and specified or determinable amounts. This will be the case even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

An intangible asset is recognised to the extent that the operator receives a right to charge users of the public service (i.e. a licence). A right to charge users of the public service is not an unconditional right to receive cash, and therefore is not a financial asset, because the amounts are contingent on the extent to which the service is used.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with IAS 11.

Operation services

Revenue and costs relating to operation services are accounted for in accordance with IAS 18.

For further information refer to IFR Bulletin, Issue 10 2007.

IFRIC 13 Customer Loyalty Programmes

Effective for annual periods beginning on or after 1 July 2008

Adopting this IFRIC may affect reported revenues and liabilities.

IFRIC 13 provides accounting guidance for companies that award their customers loyalty points when they buy goods or services. Common examples are schemes run by airlines, supermarkets, hotels and telecommunications operators (often described as 'air miles' or 'points'). The accounting guidance covers how

companies should account for revenue derived from the sale of items that give rise to the points, and the points themselves, and for obligations that may arise in respect of the discounted goods or services to be supplied to customers when they redeem their points.

The interpretation requires that the loyalty points are accounted for as a separately identifiable component of the original sales transaction (in accordance with IAS 18.13). This is based on the view that customers are implicitly paying for the loyalty points when they purchase the original goods or services, and that the suppliers are deriving their revenue from both the original sale and the subsequent transaction that takes place when the loyalty points are redeemed.

To do this, the fair value of the loyalty points is estimated. This can be derived from the fair value of the award for which they can be redeemed; alternatively, the fair value allocated to loyalty points can be derived by calculating the relative fair values of both the original supply of goods and services and the award itself.

Where awards are supplied by the entity itself, revenue is recognised at the point at which the loyalty points are redeemed and the obligation to supply the related award is fulfilled. Where the awards are supplied by a third party, the interpretation requires that the accounting approach includes an assessment of whether the entity is acting as principal or agent in the transaction, with a gross or net presentation being followed (see IAS 18.8).

For further information refer to IFR Bulletin, Issue 2 2008.

IFRIC 14 IAS 19 The Limit on a
Defined Benefit Asset Minimum
Funding Requirements and their
Interaction
Effective for annual periods beginning on or
after 1 January 2008

Adopting this IFRIC may affect the measurement of defined benefit plan assets recognised in an entity's balance sheet.

IAS 19 places a limit on the amount of an asset arising in respect of a defined benefit pension scheme being the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, plus unrecognised gains and losses. IFRIC 14 clarifies how any asset to be recognised should be determined, in particular where a minimum funding requirement exists.

The interpretation notes that while it is not necessary for a refund from a scheme to result in an immediate inflow of economic benefits, it is necessary that there is an unconditional right to a refund from a scheme. Where the benefit will be obtained through a reduction in future contributions, the amount to be so derived is calculated using assumptions that are consistent with those used to determine the situation that exists at the balance sheet date in accordance with IAS 19. Where a pension scheme has a minimum funding requirement, it is necessary to take that requirement into account when determining the amount of any asset that might be recognised.

The interpretation also notes that the existence of a minimum funding requirement might give rise to a liability, and gives guidance in respect of the amount of the liability that is required to be recognised.

For further information refer to IFR Bulletin, Issue 3 2008.

Early adoption of standards and EU endorsement

Standards issued by the IASB but not yet effective can normally be adopted early, provided that this is disclosed.

However, companies registered within the European Union can only adopt new standards and interpretations if:

- they have been endorsed by the EU at the date that the accounts are approved; or
- they do not conflict with existing standards and interpretations that have already been endorsed by the EU.

For example, the presentation of financial statements required by IAS 1 Revised conflicts with the existing, endorsed, version of IAS 1. Therefore the revised standard can only be adopted when it has been endorsed by the EU.

IFRICs, on the other hand, are strict interpretations of existing standards. Therefore, if the standard that it interprets has been endorsed, then the IFRIC can be adopted early. However, any transitional provisions may only be adopted early if they are consistent with the requirements in IAS 8 for adopting new accounting policies (meaning that any transitional reliefs included in an IFRIC Interpretation that simplify the adoption of its requirements can only be taken advantage of if the Interpretation has been endorsed).

As at 23 January 2007, the following items were in issue but not yet endorsed by the EU:

Not yet endorsed by the EU	
<i>Interpretations</i>	IFRIC 12 <i>Service Concession Arrangements</i>
	IFRIC 13 <i>Customer Loyalty Programmes</i>
	IFRIC 14 <i>IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
<i>Revised and amended standards</i>	IFRS 3 <i>Business Combinations</i> (Revised)
	IFRS 2 <i>Share-based Payment: Vesting Conditions and Cancellations</i> (Amendment)
	IAS 1 <i>Presentation of Financial Statements: A Revised Approach</i> (Amendments)
	IAS 23 <i>Borrowing Costs</i> (Amendment)
	IAS 27 <i>Consolidated and Separate Financial Statements</i> (Amendments)

At the time of writing it is not clear when these documents will be endorsed. For up-to-date information on endorsement, consult the Endorsement Status Report on <http://www.efrag.org>.

For further information on EU Endorsement refer to IFR Bulletin, Issue 8 2007.