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Quality In Everything We Do

2007 Year-end IFRS update

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2007 Year-end IFRS update



Introduction

This publication provides a summary of the changes in International Financial Reporting Standards (IFRS) that entities need to apply in their 31 December 2007 year-end reports. Also provided is a summary of those changes finalised by 30 September 2007 that will become effective in future periods, although entities are permitted to apply them to earlier periods. These changes are presented in the following sections:

- Section 1: New and amended standards and new interpretations that must be applied for financial years beginning on or after 1 January 2007;
- Section 2: New and amended standards and new interpretations issued that are not yet effective, although entities may elect to apply some of these early; and
- Section 3: Items not taken onto the International Financial Reporting Interpretations Committee (IFRIC) agenda, when the reason for the rejection provides some accounting guidance that assists with the interpretation and application of IFRS.

Sections 1 and 2 provide an overview of the key requirements of each new and amended standard issued by the International Accounting Standards Board (IASB or Board) and interpretations issued by the IFRIC. This overview is followed by a summary of the transitional requirements and a brief discussion of the impacts that each change will have on an entity's financial statements. Where a new or amended standard or a new interpretation has been issued but an entity has not yet applied it, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known or reasonably estimable information relevant to understanding the possible impact that the new standard or interpretation will have on the financial statements when it is initially applied. Therefore, management must disclose, in their 2007 report, the impact of the standards and interpretations noted in Section 2, or indicate why this is not possible. References to other Ernst & Young publications that contain further details and discussion on these topics have also been included, all of which can be downloaded from our website www.ey.com/ifrs.

Section 3 provides a summary of the reasons published in the *IFRIC Update* where the IFRIC were requested to provide an interpretation, but felt that the existing IFRS or IFRIC Interpretations included adequate guidance. While these decisions are not authoritative, they provide a view about the application of the standards.



Our publication, *International GAAP 2007*, is a comprehensive analysis of all standards and interpretations, including those mentioned in this publication, and it provides examples that illustrate how the requirements are applied. This publication is currently being updated and *International GAAP 2008* will be published within the next few months.

Our publication, *Good Group (International) Limited*, is an illustrative set of financial statements that incorporates all of the new disclosures that arise from these changes. It may also be used to assist in understanding the impact on the financial statements.

This *2007 Year-end IFRS Update* highlights only the key changes required for 2007 year-end reports and does not attempt to provide an in-depth analysis or discussion of how the standards and interpretations can be applied. Reference should be made to the text of the standards and interpretations before taking any decisions and actions.

The following table lists the new and revised standards and new interpretations with their effective dates, being financial years beginning on or after the date noted.

1. Applicable for December 2007 year-ends		
Standard or Interpretation	Title	Effective date
IFRS 7 (and IAS 32 and IAS 30)	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment - Capital disclosures	1 January 2007
IFRIC 7	Applying the Restatement Approach under IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
2. Not effective for December 2007 year-ends, although they may be applied early		
Standard or Interpretation	Title	Effective date
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements - Revised	1 January 2009
IAS 23	Borrowing Costs - Revised	1 January 2009
IFRIC 11	IFRS 2 - <i>Group and Treasury Share Transactions</i>	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 - <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2008

IFRS 7 Financial Instruments: Disclosures

Key requirements

IFRS 7 includes all of the disclosure requirements relating to financial instruments and replaces the disclosure section of IAS 32 *Financial Instruments: Disclosure and Presentation* and all of IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. IAS 32 will then contain only presentation requirements for financial instruments and IAS 30 will be withdrawn.

The most significant additional disclosure requirements of IFRS 7 (compared with IAS 32 and IAS 30) are as follows:

Nature and extent of risks

- Qualitative risk disclosures are to include information on the processes that an entity uses to manage and measure its risks;
- Quantitative data about the exposure to each type of risk arising from financial instruments;
- Information about the credit quality of financial assets that are neither past due nor impaired;
- An analysis of financial assets that are past due or impaired, including a description of collateral held as security and the related fair value; and
- A market risk sensitivity analysis which includes the effect of a reasonably possible change in the risk variables, together with the methods and assumptions used in preparing the analysis.

Other

- A reconciliation of changes in the allowance for credit losses for each class of financial asset;
- Enhanced income statement and balance sheet disclosures, including separate identification of net gains or losses and the amount of any impairment loss for each category of financial instrument;
- The criteria for determining when the carrying amount of an impaired financial asset is reduced directly and when an allowance account is used, and when to write off amounts charged to the allowance account;
- The aggregate gains or losses on the hedging instrument and on the hedged item attributable to the hedged risk of a fair value hedge;
- The ineffectiveness recognised in profit or loss arising from both cash flow hedges and hedges of net investments in foreign operations; and
- The profit or loss arising on initial recognition of financial instruments ('day 1' profits or losses) that are not recognised in the financial statements and a reconciliation of changes in this unrecognised balance during the period. The accounting policy applied in determining when unrecognised amounts are recognised in profit or loss must also be disclosed.

Transition

The disclosures are required in the annual financial statements, and must also be provided for all comparative periods presented.

Impact

Entities need to amend processes and systems as necessary to ensure information is collected on a timely basis. All documented policies should also be reassessed to determine that they are comprehensive and complete.

Our publication *IFRS 7 Financial Instruments: Disclosures* provides a detailed comparison of the requirements of IFRS 7 with IAS 32 and IAS 30.

The second edition of this publication also provides application guidance and illustrative examples of entities that have elected to apply IFRS 7 early.

The July 2006 edition of *Global EYE on IFRS* discusses how IFRS 7 affects entities outside the financial institutions sector.

Amendment to IAS 1 Presentation of Financial Statements – Capital disclosures

Key changes

This amendment to IAS 1 *Presentation of Financial Statements* has come about as a result of IFRS 7 and requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include:

- The objectives, procedures and policies used to manage capital, including a description of what the entity manages as capital, the nature of any externally imposed capital requirements and how it meets its objectives for managing capital;
- Quantitative information about what is managed as capital and any changes from the prior period; and
- Whether the entity complied with externally imposed capital requirements during the period and if there was non-compliance, the consequences of this.

Transition

The disclosures are required in the annual financial statements and must also be provided for all comparative periods presented.

Impact

Entities will need to consider the information that is currently used internally and how this is to be incorporated in the disclosures. Systems may need to be updated to ensure the quantitative information is collected on a timely basis.



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

Key requirements

IFRIC 7 requires entities to apply IAS 29 *Financial Reporting in Hyperinflationary Economies* in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency (or, typically, in the economy of the functional currency of one of the entity's foreign operations), as if the economy concerned had always been hyperinflationary. Therefore:

- Non-monetary items measured at historical cost are restated to reflect the effect of inflation from the date the asset was acquired or the liability was incurred until the closing date of the reporting period.
- Non-monetary items not measured at historical cost are restated to reflect the effect of inflation from the last remeasurement date until the closing date of the reporting period.
- Deferred tax items in the opening balance sheet (for the reporting period and comparative period) are remeasured in accordance with IAS 12 *Income Taxes* after restatement of the non-monetary items, by applying the measuring unit current at the relevant opening balance sheet date. These remeasured deferred tax items are restated for the change in the measuring unit from the opening balance sheet date to the closing balance sheet date of the relevant period.

Impact

Application of this Interpretation will result in restatement of the entity's comparative information under IAS 29 *Financial Reporting in Hyperinflationary Economies*. Systems and processes may need to be updated to ensure that the information is captured and correctly restated using the new measuring unit.

IFRIC 8 Scope of IFRS 2

Effective for annual periods beginning on or after 1 May 2006

Key requirements

IFRIC 8 clarifies that IFRS 2 *Share-based Payment* will apply to arrangements in which an entity receives non-financial assets or services in consideration for the issue of equity instruments, or in which an entity incurs liabilities in respect of goods and services received that are based on the price of an entity's equity instruments. This is the case even when the entity cannot identify specifically some or all of the goods or services received. When the identifiable consideration appears to be less than the fair value of the instruments given, this is regarded as an indication that other consideration (ie, unidentifiable goods or services) has been or will be received. The unidentifiable goods or services received are to be measured at the grant date as the difference between the fair value of the share-based payment (equity given or liability incurred) and the fair value of any identifiable goods or services received.

For cash-settled transactions, the liability is to be remeasured at each reporting date until it is settled, in accordance with IFRS 2.

Transition

If a change in accounting policy is required, it is applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact

IFRIC 8 will affect only those entities that have not measured arrangements involving the issue of shares or the assumption of liabilities at the fair value of the share-based payment, on the grounds that the specific goods and services received by way of consideration either could not be identified or were lower in value than the share-based payment. Where this is the case, the entity will need to apply IFRIC 8 to those transactions retrospectively.

IFRIC 9 Reassessment of Embedded Derivatives

Effective for annual periods beginning on or after 1 June 2006

Key requirements

IFRIC 9 prescribes that the existence of an embedded derivative is determined at the date an entity first becomes a party to a contract and is reassessed only when there has been a change to the contract that significantly modifies the cash flows.

Transition

If a change in accounting policy is required, it is applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact

Entities will need to consider whether the existence of embedded derivatives has been reassessed since the contract was entered into. Where reassessments were made at a later date that did not result from changes that significantly modified the cash flows, the accounting will need to be revised.



IFRIC 10 *Interim Financial Reporting and Impairment*

Effective for annual periods beginning on or after 1 November 2006

Key requirements

IFRIC 10 resolves an inconsistency between IAS 34 *Interim Financial Reporting* and the impairment requirements relating to goodwill (IAS 36 *Impairment of Assets*) and equity instruments classified as available for sale (IAS 39 *Financial Instruments: Recognition and Measurement*). The Interpretation states that the specific requirements of IAS 36 and IAS 39 take precedence over the general requirements of IAS 34. Therefore, any impairment loss recognised in respect of these assets in an entity's interim financial statements may not be reversed in subsequent interim or annual financial statements.

Transition

This Interpretation is to be applied prospectively from the date that IAS 36 was first applied and the measurement criteria of IAS 39 were first applied by the entity.

Impact

Entities reporting interim results may report different results than would have been the case had they reported only on an annual basis.

Ernst & Young's *IFRS Alert* Issue 3 (July 2006) contains more detailed information about this Interpretation.

IFRS 8 Operating Segments

Effective for annual periods beginning on or after 1 January 2009

Key requirements

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a full management approach to identifying and measuring the results of reportable operating segments as set out in SFAS 131 (IFRS 8 was issued as part of the short-term convergence project with the FASB). The information reported is that which the chief operating decision maker uses internally for evaluating the performance of operating segments and allocating resources to those segments (a 'through the eyes of management' approach). When the information provided to management is recognised or measured on a different basis to IFRS information presented in the primary financial statements, entities need to provide explanations and reconciliations of the differences.

Additional disclosures required by IFRS 8 (not required by IAS 14) are:

- Revenues for each group of similar products and services, and revenues attributed to: (1) the entity's country of domicile; and (2) all foreign countries' with separate disclosure of revenues to individual foreign countries if material (single segment companies also need to give this information) (this information replaces more extensive geographical information in IAS 14);
- An explanation of how the entity has determined its reportable operating segments, the basis on which the disclosed amounts have been measured, changes in the structure of the internal organisation and any consequential impact on the composition of reportable segments;
- A measure of profit or loss and assets must be disclosed for each reportable segment and additional line items such as interest revenue and expense are required if they are provided to the chief operating decision maker;
- When an entity has received more than 10% of its revenue from a single customer, the total amount of revenue earned from each customer and the name of the operating segment that reports that revenue;
- Segment liabilities, if such information is reviewed by the chief operating decision maker; and
- A reconciliation of total reportable segments to the corresponding IFRS amounts in the primary financial statements for revenues, profit or loss, assets, liabilities and other material items.

Transition

The disclosures must be provided for all comparative periods presented, unless the necessary information is not available and the cost to produce such information is excessive, in which case that fact must be disclosed.

Impact

It is likely that the information required to be disclosed will be readily available as it is already used internally. However, entities may need to put processes in place to reconcile this information to the balance sheet and income statement.



Ernst & Young's publication IFRS 8 *Operating Segments – Implementation Guidance* provides further guidance about applying the new requirements and contains illustrative examples.

IAS 1 Presentation of Financial Statements (Revised)

Effective for annual periods beginning on or after 1 January 2009

Key changes

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The key changes are:

- The statement of changes in equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement. Owners are defined as 'holders of instruments classified as equity'.
- The introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate income statement and a statement of comprehensive income.
- Amounts reclassified to profit or loss that were previously recognised in other comprehensive income (for example, previously unrealised gains on available-for-sale financial assets that are sold) must be separately disclosed, either in the statement of comprehensive income itself or in the notes.
- Entities must disclose the income tax relating to each component of other comprehensive income. This can be presented in the statement of comprehensive income itself or in the notes.
- When an entity restates its financial statements or retrospectively applies a new accounting policy, a statement of financial position must be presented as at the beginning of the earliest comparative period (ie, third balance sheet).
- Dividends to equity holders can now be shown only in the statement of changes in equity or in the notes.
- The introduction of new terminology, replacing 'balance sheet' with 'statement of financial position' and 'cash flow statement' with 'statement of cash flows', although the titles are not obligatory.

Transition

When the revised standard is first applied, the disclosures must be made for all comparative periods presented.

Impact

Entities will need to consider whether to present the statement of comprehensive income as a single statement or two statements. This may also impact the information disclosed in other announcements by the entity, such as press releases.

Ernst & Young's *IFRS Alert* Issue 17 (September 2007) contains more detailed information about the revised standard.

IAS 23 Borrowing Costs (Revised)

Effective for annual periods beginning on or after 1 January 2009

Key changes

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

The scope of the standard has been amended and the revised standard is not required to be applied to borrowing costs directly attributable to:

- Qualifying assets measured at fair value, eg, financial or biological assets. However, entities are not prohibited from presenting items in the income statement as if borrowing costs had been capitalised, before measuring the items at fair value; or
- Inventories that are manufactured in large quantities on a repetitive basis.

Transition

The amendments apply to borrowing costs incurred on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

Impact

For entities that currently expense all borrowing costs as they are incurred, additional systems and processes may be needed to capture the information regarding assets under construction and to calculate the costs to be capitalised.

Ernst & Young's *IFRS Alert* Issue 12 (April 2007) contains further details about the revised standard.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

Effective for annual periods beginning on or after 1 March 2007

Key requirements

This Interpretation requires arrangements whereby an employee has rights to an entity's equity instruments to be accounted for as an equity-settled scheme even if:

- The entity chooses or is required to buy those equity instruments (eg, treasury shares) from another party, or
- The shareholder of the entity provides the equity instruments needed.

The Interpretation also sets out requirements as to how subsidiaries, in their separate financial statements, should account for schemes when their employees receive equity instruments of the parent. In particular, it requires that:

- When the parent grants equity instruments to a subsidiary's employees, they are accounted for as an equity-settled arrangement (and as an equity contribution by



the parent) only if the parent accounts for the arrangement as such in the consolidated financial statements. When the arrangement allows employees to transfer between entities in a group and to retain their rights under the share-based payment arrangement, each entity recognises compensation expense based on the proportion of the total vesting period for which the employee has worked for that subsidiary, measured at the fair value at the original grant date by the parent.

- When a subsidiary grants equity instruments of its parent to its employees, the transaction is accounted for as a cash-settled scheme.

Transition

If changes in accounting policies are required, they are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact

Entities will need to review all existing arrangements under which employees have rights to their equity instruments that have been accounted for as cash-settled, to determine whether they should now be accounted for as equity-settled arrangements.

Entities have accounted in different ways for arrangements under which employees receive equity instruments of the parent. This Interpretation is likely to result in more schemes being accounted for by subsidiaries as equity-settled schemes.

All share-based payment schemes must be reassessed at the subsidiary level, and new processes may need to be implemented in order to allow an appropriate allocation of costs between subsidiaries when employees transfer within the group. As this may reduce the reported profits or increase the reported losses of subsidiaries, debt covenants and remuneration structures may be impacted.

Ernst & Young's *IFRS Alert* Issue 6 (November 2006) contains more detail about this Interpretation.

IFRIC 12 Service Concession Arrangements

Effective for annual periods beginning on or after 1 January 2008

Key requirements

The interpretation provides guidance on the accounting by operators for public-to-private service concession arrangements.

The interpretation applies where:

- The grantor controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

An operator should not account for the infrastructure as property, plant and equipment, but instead recognises a financial asset and/or an intangible asset in respect of the consideration received or receivable by it, measured at the fair value of the construction or upgrade services it provides.

- A financial asset is recognised to the extent that the operator has an unconditional contractual right to receive cash or another financial asset from the grantor for construction or upgrade services. An unconditional right also exists when the grantor guarantees the operator's cash flows by agreeing to pay specified amounts.
- An intangible asset is recognised to the extent that the operator has a right to charge the public for use of the asset.

When an operator is paid for its services partly by a financial asset and partly by a licence to charge users, the two components of the consideration must be recognised separately.

Transition

If changes in accounting policy are required, they are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if it is impracticable for an operator to apply this Interpretation retrospectively, it must:

- Reclassify the relevant assets that existed at the start of the earliest period presented as financial assets and intangible assets;
- Use the previous carrying amounts of those financial and intangible assets (regardless of previous classifications) as their carrying amounts as at that date; and
- Test financial and intangible assets recognised at that date for impairment. If this is impracticable, the amounts must be tested for impairment as at the start of the current period.

Impact

Entities with public-to-private service concessions will need to assess their existing contractual arrangements to identify the contracted cash flows that give rise to a financial asset and identify any intangible asset that may exist. Information systems may need to be established to enable appropriate accounting for each asset identified.



Ernst & Young's publication, *Service Concession Arrangements – Implementation Guidance*, provides further information on the requirements and discusses various application issues.

IFRIC 13 Customer Loyalty Programmes

Effective for annual periods beginning on or after 1 July 2008

Key requirements

The Interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognised.

Transition

If changes in accounting policies are required, they are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact

If entities had previously provided only for the cost of supplying the loyalty awards, the liability recognised will now be higher and, consequently, revenue from the initial sale will be lower. This may also impact any debt covenants and remuneration structures.

Entities will need to determine appropriate methodologies for measuring the fair value of the loyalty award credits. Depending on the nature of the scheme this may require complex models to be developed. This is likely to take considerable time and effort and may require the use of expert services. It may also require changes to information systems.

Ernst & Young's publication, *Customer Loyalty Programmes – implementation guidance*, provides further information on the requirements and discusses various application issues.

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

Key requirements

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. The specific issues addressed by the interpretation are:

- A refund is available to the entity only if there is an unconditional right to the refund. The refund is measured as the amount of the surplus at the balance sheet date less any associated costs.
- When there is an unconditional right to a refund and there is no minimum funding requirement, an entity determines the benefit available as the lower of the surplus in the plan and the present value of the future service cost to the entity.
- When a minimum funding requirement exists, the benefit available is the present value of the estimated future service cost less the estimated minimum funding contribution required in respect of the future accrual of benefits in that year.
- If an entity has a minimum funding requirement to pay additional contributions, the entity must determine whether the contributions will be available as a refund or reduction in future contributions after they are paid into the plan. If not, a liability is recognised when the obligation arises.

Transition

An entity must apply the Interpretation from the beginning of the first year presented in the first financial statements to which the Interpretation is applied. Any initial adjustment arising from the application of the Interpretation is recognised in retained earnings at the beginning of that period.

Impact

Entities will need to reassess how they determine their asset ceiling. In some cases, this could result in the derecognition of pension assets, or the recognition of a liability with a significant effect on the financial position of the entity.

This Interpretation is very complex and we recommend consultation with your usual Ernst & Young contact when first applying the Interpretation.

Ernst & Young's *IFRS Alert* Issue 15 (July 2007) contains more detailed information about this Interpretation.



SECTION 3: ITEMS NOT TAKEN TO THE IFRIC AGENDA
WHERE THE IFRIC HAS PROVIDED GUIDANCE AS TO THE
INTERPRETATION OF IFRS

During 2007, the IFRIC Agenda Committee deliberated on a large number of items referred to the IFRIC, and in many cases, concluded that it would not take the items concerned onto its agenda. Many items were not taken on by the IFRIC as they related to the IASB's current projects or because the issue was of narrow application.

However, other items were not taken to the agenda because the IFRIC concluded that existing guidance in IFRS was adequate. In issuing their reasons, the IFRIC added some further guidance about how the standards should be applied. The table below summarises the items that appear to us to have broad application. The full list of items considered by the IFRIC can be found on the IASB's website.

Final date considered	Issue	Summary of reason for not adding to the IFRIC agenda
May 2007	IAS 1 / IAS 39 – Current or non-current presentation of derivatives classified as “held for trading” under IAS 39	The IFRIC noted that paragraph 56 of IAS 1 states that presenting current and non-current information on the balance sheet is for the purpose of assessing the liquidity and solvency of the entity. Therefore, the IFRIC believes that derivatives should be presented according to their settlement date(s), regardless of how they are classified in IAS 39 for recognition and measurement purposes. The IFRIC noted that paragraph 62 of IAS 1 could be read as implying that derivative liabilities are required to be presented as current. The Board has agreed to amend the paragraph as part of the annual improvements process.
May 2007	IAS 16 – Recording proceeds on the sale of assets that are held for rental	Paragraph 68 of IAS 16 states that gains arising from derecognition (eg, on the sale) of an item of property, plant and equipment shall not be classified as revenue. However, it was thought in some limited cases, that reporting gross revenue in the income statement would be consistent with the Framework and other standards. As allowing revenue to be reported gross in the situation noted would require an amendment to the Standard, the IFRIC drew the issue to the attention of the Board. The Board subsequently decided to amend IAS 16 as part of the annual improvements process, and proposed that such items may be reclassified to inventory, therefore allowing the proceeds to be recognised as gross revenues.

SECTION 3: ITEMS NOT TAKEN TO THE IFRIC AGENDA
WHERE THE IFRIC HAS PROVIDED GUIDANCE AS TO THE
INTERPRETATION OF IFRS



Final date considered	Issue	Summary of reason for not adding to the IFRIC agenda
March 2007	IAS 17 – Sale and leasebacks with repurchase agreements	<p>The IFRIC considered whether transactions that take the form of a sale and leaseback transaction should be accounted for as such when the seller/lessee retains effective control of the leased asset through a repurchase agreement.</p> <p>The IFRIC noted that IAS 17, rather than IAS 18, provides more specific guidance with respect to sale and leaseback transactions and therefore IAS 17 should be referred to rather than IAS 18. However, IAS 17 applies only to transactions that convey a right to use an asset. If in applying the guidance in SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> and IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>, an entity determines that an arrangement does not convey a right of use, the transaction is outside the scope of IAS 17 and its requirements do not apply. Rather, the criteria for recognition of a sale in IAS 18 will apply.</p>
March 2007	IAS 36 – Identifying cash-generating units in the retail industry	<p>The IFRIC considered whether a cash-generating unit (CGU) could combine more than one individual store location. Possible considerations included shared infrastructures, marketing and pricing policies, and human resources.</p> <p>The IFRIC noted that paragraph 6 of IAS 36 (and supporting guidance in paragraph 68) requires identification of CGUs on the basis of independent cash inflows rather than independent net cash flows and so outflows such as shared infrastructure and marketing costs are not considered.</p>

SECTION 3: ITEMS NOT TAKEN TO THE IFRIC AGENDA
WHERE THE IFRIC HAS PROVIDED GUIDANCE AS TO THE
INTERPRETATION OF IFRS

Final date considered	Issue	Summary of reason for not adding to the IFRIC agenda
January 2007	IAS 39 & IAS 27 – Classification of financial instruments puttable at an amount other than fair value in the financial statements of the holders	<p>The IFRIC noted that the issuer of a financial instrument is required to classify it in accordance with IAS 32, whereas the holder is required to classify and account for it in accordance with IAS 39. The IFRIC noted that IAS 39 requires the holder to identify embedded derivatives of hybrid financial instruments and to account for the embedded derivatives separately if all the conditions in paragraph 11 of IAS 39 are met. These requirements apply to the holder regardless of whether any embedded derivatives are separately accounted for in the financial statements of the issuer.</p> <p>As the holder may hold instruments that are not classified as equity instruments by the issuer, such that the issuer has no equity instruments in issue, the IFRIC was asked whether this affects the need to present consolidated financial statements as well as to recognise goodwill. The IFRIC noted that the control of a subsidiary, and the resulting requirement for a parent to present consolidated financial statements in accordance with IAS 27 (including the requirement to recognise goodwill in accordance with IFRS 3) does not necessarily depend on the parent's owning equity instruments of the subsidiary.</p>
March 2007	IAS 39 – What is a written option in retail energy contracts within the context of paragraph 7 of IAS 39?	<p>The IFRIC noted that a written option to buy or sell a non-financial item that can be net settled cannot be considered to have been entered into for the purpose of meeting the reporting entity's normal purchase, sale and usage requirements.</p> <p>The analysis of energy supply contracts to retail customers, in many cases, suggested that these contracts are not capable of net cash settlement as laid out in paragraphs 5 and 6 of IAS 39. Therefore, such contracts would not be within the scope of IAS 39.</p>

SECTION 3: ITEMS NOT TAKEN TO THE IFRIC AGENDA
WHERE THE IFRIC HAS PROVIDED GUIDANCE AS TO THE
INTERPRETATION OF IFRS



Final date considered	Issue	Summary of reason for not adding to the IFRIC agenda
March 2007	IAS 39 – Assessing hedge effectiveness of an interest rate swap in a cash flow hedge	<p>IAS 39 states that if the principal terms of the hedged item do not match perfectly with those of the hedging item, ineffectiveness will arise. In designating an interest rate swap as a hedging instrument in a cash flow hedge, an entity may consider only the undiscounted changes in cash flows of the hedging instrument and the hedged item. In other words, only a portion of the movements in fair value of the swap is taken into account.</p> <p>However, the IFRIC noted that such a method would not meet the requirements in IAS 39. Paragraph 74 of IAS 39 required the full change in fair value to be taken into account unless the hedging instrument was an option or a forward contract.</p>
July 2007	IAS 39 – Gaming transactions	<p>The IFRIC noted that when a gaming institution takes a position against a customer, the resulting unsettled wager is a financial instrument that is likely to meet the definition of a derivative financial instrument and should be accounted for in accordance with IAS 39.</p> <p>In other situations, a gaming institution does not take positions against customers but, instead, provides services to manage the organisation of games between two or more gaming parties. The gaming institution earns a commission for such services regardless of the outcome of the wager. The IFRIC noted that such a commission was likely to meet the definition of revenue and would be recognised when the conditions in IAS 18 Revenue were met.</p>
July 2007	IFRS 5 – Plan to sell the controlling interest in a subsidiary	<p>The IFRIC noted that paragraph 6 of IFRS 5 requires a non-current asset (or disposal group) to be classified as 'held for sale' if its carrying amount will be recovered principally through sale. The IFRIC believes that having a plan that meets the conditions in IFRS 5 involving loss of control over a subsidiary should trigger classification as 'held for sale' of all of the subsidiary's assets and liabilities. The IFRIC recommended that the Board amend IFRS 5 to clarify this, which the Board subsequently agreed to do as part of the annual improvements process.</p> <p>The IFRIC also noted that a disposal group classified as 'held for sale' will also be a discontinued operation if the criteria of paragraph 32 of IFRS 5 are met.</p> <p>The IFRIC did not address how the remaining non-controlling equity investment should be measured after the sale. This issue is being considered in the Board's joint project on business combinations.</p>

SECTION 3: ITEMS NOT TAKEN TO THE IFRIC AGENDA
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Final date considered	Issue	Summary of reason for not adding to the IFRIC agenda
September 2007	IFRS 5 – Disclosures required by other standards	When specific assets are within the scope of IFRS 5, they have generally been scoped out of other standards. However, some standards have not scoped out disclosures that relate to items that are classified as ‘held for sale’ as part of a disposal group or discontinued operation (eg, financial instruments). The IFRIC believes that the issue should be resolved by amending IFRS 5 to restrict the disclosures required of other standards, implying that currently IFRS 5 require such disclosures.

Tentative decisions

A number of items are still under discussion by the IFRIC; however, it has tentatively decided not to add the following items onto its agenda. It is expected that final decisions will be reached in forthcoming meetings.

Last date considered	Issue	Tentative view
September 2007	IAS 19 – Treatment of employee contributions	<p>The IFRIC noted that paragraph 120A of IAS 19 implies that contributions by employees to the ongoing cost of the plan, reduce the current service cost to the entity. It also noted that paragraph 91 of IAS 19 states that employee contributions payable when benefits are paid (such as contributions to medical costs covered by a post-employment health care plan) are to be taken into account when determining the defined benefit obligation.</p> <p>The IFRIC also discussed how to account for a pension plan in which the cost of providing the benefits is shared between the employees and the employer. Applying paragraph 85 of IAS 19, the IFRIC noted that if a defined benefit plan includes surplus-sharing provisions, the employer’s obligation to use such a surplus for the benefit of plan participants should be taken into account when measuring the obligation. It further noted that if the terms of the plan include cost-sharing provisions, the right to increase required employee contributions should also be taken into account.</p>

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Last date considered	Issue	Tentative view
September 2007	IAS 19 – Changes to a defined benefit plan caused by government actions	<p>The IFRIC noted that IAS 19 <i>Employee Benefits</i> already provides guidance on this issue in paragraph 73 and paragraph 97 as well as paragraph 55 of the Basis for Conclusion. Therefore, the IFRIC believed that IAS 19 was clear that the source of change should not affect the accounting and that:</p> <ul style="list-style-type: none"> · When a change in a plan caused by a government affects actuarial assumptions, this change should be accounted for as an actuarial gain or loss. · When a change in a plan caused by a government affects benefits for service before the change, this change should be accounted for as past service cost.
September 2007	IAS 19 – How to attribute 'death-in-service' benefits	<p>An entity may provide payments to employees' next of kin if they die while employed ('death-in-service' benefits). The IFRIC noted that paragraph 67(b) of IAS 19 requires attribution of the cost of the benefits until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.</p> <p>The IFRIC further noted that, since the anticipated date of death would be the date at which no further benefits would arise, costs should be attributed until this date. It also noted that paragraph 72 required actuarial assumptions that are mutually compatible. Therefore, the use of different mortality assumptions for the defined benefit plan and an associated death-in-service benefit would not comply with these requirements. However, if an entity paid insurance premiums for the death in service benefit, this would be accounted for as a defined contribution, provided that the entity retained no legal or constructive obligation to pay any of the employee benefits.</p>

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