As we approach the second year-end under IFRS accounting, things are speeding up in the accounting world! For example, November has been characterised by intense activity on the part of the IASB! Various standards, amendments and interpretations became obligatory in 2006. DOCTR’in keeps you updated on all the texts published by the regulator.

However, the major buzz this month is around the publication of the IFRIC 12 interpretation on public service concessions. DOCTR’in provides you with the salient points of the text, published 30 November.

Happy reading!

Michel Barbet-Massin
Jean-Louis Lebrun

Consultancy task force created on “Employee Benefits”

The IASB is to create a “consultancy” task force to re-examine the accounting rules in IAS 19, “Employee benefits”. Applications are requested from any interested experts. The goal is to publish a proposed standard over the next 3 to 4 years.

Charlie McCreevy speaks on the reconciliation of IAS/IFRS with US GAAPs

At the World Congress of Financial Executives in Berlin, the European Commissioner spoke about the planned convergence between the IFRS and US GAAP standards. He emphasised the “unprecedented” progress that had been made and reiterated his wish to remove IFRS reconciliation requirements into the US GAAPs by 2009.

Concessions round-table on 13 November 2006

The IASB held a round-table discussion on 13 November with entities and organisations that had observations to make on the proposed D12-D13-D14 interpretations. Jean-Louis Lebrun and Françoise Flores, both Mazars partners, attended the round-table discussion. The participants generally welcomed the very significant improvements made by IFRIC, and they were approved by all the industrial representatives, with the exception of the Spanish.

Following the consultation, the IASB approved the interpretation for publication. You will find the main elements of IFRIC 12 on page 9.
Japan IFRS convergence project continues

The fourth working meeting between the IASB and the ASBJ (Accounting Standards Board of Japan) was held in London on 28 and 29 September 2006. The ASBJ summarised its progress, notably on intangible assets and retrospective application.

The two Boards also confirmed their commitment to working together. The next meeting is planned for March 2007 in Tokyo.

IASB – EFRAG “Convergence” meeting

At the start of the year, the IASB and the EFRAG had agreed to meet regularly so that the EFRAG could put the European point of view to the IASB on the standards jointly under development by the IASB and the FASB. The first of these public meetings was held on 17 October. The EFRAG delegation was composed of Stig Enevoldsen, chairman of the EFRAG, Antoine Bracchi, chairman of the CNC, Harald Wieldmann, chairman of the German regulator (DRSC), Ian Mackintosh, chairman of the UK Accounting Standards Board, and Françoise Flores, Mazars Partner.

The delegation restated Europe’s opposition to the revision of the business combinations standard, expressed the need for a better definition of debt/equity, and alerted the IASB to the need for better justification of the modifications to the Conceptual Framework and the directions taken in the Presentation of Financial Statements project. The next meeting is planned for April 2007.

MEDEF – ACTEO – CNCC – SFAF Colloquium

The four organisations came together to organise a colloquium on 26 October under the leadership of MEDEF. The goal was on the one hand, to gain an overview of the implementation of IFRS, and on the other hand, to sketch out best practice to facilitate understanding of IFRS in financial communications and to play a role in the development of IFRS.

Françoise Flores, Mazars Partner and Technical Adviser to ACTEO, presented the principal developments of IFRS as expected over the period 2009-2012.

Third EFRAG Advisory Forum

EFRAG held its third Advisory Forum in Brussels on 18 October. This Forum aimed to promote discussion in Europe on turnover accounting. A summary of the discussion document prepared by the EFRAG as part of its pro-active approach served as a basis for the debate. The discussion between the participants (members of the TEG, financial directors, auditors, etc.) primarily approached the problem from a practical point of view.

EFRAG is to publish its discussion document in the very near future. It will be accompanied by a request for comments.
Business Combinations

During the meeting between the IASB and the FASB, the two Boards set a target publication date of 30 June 2007 for the revised standard.

However, in order to meet this target, they will need to resolve their differences on the full goodwill method. The FASB approved this method almost unanimously. At the IASB, the position of new Board member Philippe Danjou could swing the balance. A positive vote from him will ensure the text is approved by the IASB, if none of the other members change their previous vote.

How is de facto control to be determined under IAS 27?

The European Commission asked the IASB, in a letter dated 26 October 2006, to clarify the practices for determining de facto control which can have significant impacts on the financial statements.

The European Commission says the Board’s position is not sufficiently clear on the criteria necessary for determining de facto control under IAS 27.

IFRS 4 – State of play

The Discussion Paper on insurance contracts in phase II should be published during the first quarter of 2007. An initial project is currently being debated, with a view to recognising liabilities relating to insurance contracts at their “current exit value”, which could produce a margin on underwriting.

However, insurers would only receive such a margin in a limited number of cases, which reduces the impact of the concept of “current exit value”.

Generally speaking, these two approaches relate to all the IASB’s current projects (revenue recognition, fair value measurement).

Several market players have presented their own visions of the phase II accounting model to the IASB (CFO Forum). Some of these visions differ from the current project on certain conclusions (recognition of a margin on underwriting, recognition of deferred employee sharing of profits as a liability, etc.).

In order to analyse the issues raised by the current project, the CNC has set up three working groups, in which Mazars is involved:

- “Measurement”, on calculating the current exit value
- “Investment Contracts & DPF”, on deferred policyholders’ bonuses and potential situations where the contract can be broken down into different elements
- “Future premiums / DAC / Intangible”, on taking renewals and intangibles (deferred acquisition costs) into account.

Amendments to IAS 37 - Provisions

The IASB discussions in September highlighted differences in interpretation for the IAS 37 standard, and thus for the revised standard project, relating to the valuation principles for non-financial liabilities.

The valuation principle in the current IAS 37 standard was clarified in October and confirmed by the amendments to the standard: a non-financial asset must be valued on the basis of what it would cost the entity to settle the obligation, whatever the resources used.

Many felt that the valuation could be based on a best estimate of the outflow of resources necessary to settle the obligation. This “best estimate” was generally the outflow of resources required by the most probable scenario.
The Board has confirmed that the valuation should be based on the minimum cost to the company, calculated at year end, to remove the liability. This minimum cost could be:
- The cost of transferring the liability to a third-party insurer (which could require market data that are not always available); or
- The cost to the company of settling the obligation itself.
When calculating the cost, the Board stated that the valuation should systematically reflect the various possible scenarios and associated risk factors, thus invalidating the current practice of calculating the cost of the most probable scenario. These rulings will be clarified in the amended IAS 37 standard, but the Board’s stance is that they are merely a clarification of the rules in the current IAS 37 standard.

**IFRS 8 – Operating Segments**
The IASB published IFRS 8 – Operating Segments on 30 November 2006. This standard replaces IAS 14 and is part of the short-term convergence programme with US GAAP.

IFRS 8 requires reporting entities to adapt their “management approach” for the presentation of segment information. This means that the presentation of the information is identical to that used by the management of the reporting entity. The presentation may, by definition, be different to the way in which the reporting entity’s accounts are published. IFRS 8 thus requires an explanation of how segment information is prepared, together with tables showing reconciliation with the published financial statements.

The IASB believes that IFRS 8 should improve financial information:
- When reading the financial statements, it will be possible to see the information as the management see it;
- The use of data prepared previously for internal requirements will reduce the cost of producing financial information.

The IASB concedes that the last point will doubtless allow an increase in requirements for segment information in interim statements.

IFRS 8 is applicable for years beginning from 1 January 2009. Early application is encouraged.

**Proportional integration**
Following deliberation in November, the IASB has confirmed the amendments which it plans to propose to IAS 31 – Interests in Joint Ventures as part of its short-term convergence programme with US GAAP. The decision was taken, it seems, after consultation with a range of companies. The companies confirmed the validity of the Board’s planned solution.

The IASB is to examine an initial exposure draft in January which removes all possibility of proportional integration for jointly controlled operations or entities owned jointly.

**IAS 23 – Borrowing costs**
The IASB has taken account of the comments received following the publication of the planned amendment to IAS 23 which would eliminate the option of recognising interest immediately as an expense.

A significant number of the Board members said they were convinced by the arguments against the proposal, put forward by a majority of commentators.

However, no decision has been made, as the Board wishes to consult with the FASB and the SEC on the potential effects of abandoning the project on the convergence programme. This confirms, if any confirmation were needed, that the motivation for the project is not technical.
The IFRIC wording for rejection: what are the consequences for financial statements?

More than 70% of interpretation requests sent to the International Financial Reporting Interpretations Committee are rejected. Refusals feature in IFRIC’s Update as “wordings for rejection”.

While there is no dispute over the status of interpretations (i.e. they carry the same weight for reporting entities, like the IFRS standards), the same cannot be said for “wordings for rejection”. Some hold that “wordings for rejection” are not interpretations and should be ignored when preparing the accounts. Others, on the other hand, point out that they are a statement of position from the IFRIC and thus cannot be ignored.

It all depends on whether these “wordings for rejection” lead to error corrections or changes in accounting methods. The IASCF published a proposal for the IFRIC’s internal operations in the first half of 2006 but did not deal specifically with this issue, saying only that the list of subjects not covered by IFRIC did not form part of the IFRS standards.

As a reminder, “wordings for rejection” are mainly published by the IFRIC in the following situations:

- The issue raised with the IFRIC does not have practical implications and is either too broad, or limited to a specific field;
- The issue is not likely to give rise to different accounting practices;
- It is unlikely that IFRIC would reach a consensus within a reasonable time period;
- The IFRIC’s work could interfere with work underway at the IASB.

These “wordings for rejection” are initially published provisionally and comments are requested. The IASB publishes the definitive “wordings for rejection” only once these comments have been examined. Discussions are underway with the FEE, UNICE and CESR in order to find practical accounting solutions (error corrections or changes in accounting methods) for these “wordings for rejection” at companies which had interpreted the rules differently.

Distinction between debt and equity

The IFRIC approved the publication of a definitive “wording for rejection” at its last meeting on 1 November 2006. In March 2006, a majority of the IFRIC’s members refused to issue an interpretation on whether a financial instrument should be classified as debt or equity. However, no consensus could be reached on the reasons for the refusal. It’s done now!

The debate revolved around the part played by contractual obligations and economic compulsion in analysing whether an instrument should be classified as debt or equity. Thus, while the committee recognises that the obligation to recognise a financial instrument as cash or as another financial asset can be explicit or implicit, the IFRIC considers that this obligation must in one way or another be included in the terms or conditions of the financial instrument issued.

“Economic compulsion” is not enough in itself to dictate that a financial instrument should be classified as debt, if there is nothing in its terms and conditions to indicate that that should be the case. For example, an instrument for which interest payments are stopped if the entity does not pay dividends on its ordinary shares must be classified as equity, as the entity has no contractual obligation to recognise it in cash or another financial asset. It is not important that the dividend payment is economically certain (i.e. historic practice, investor pressure, etc.)

This “wording for rejection” points out that the IAS 32 rules focus on the legal form of operations rather than the economic substance. However this may be, the IFRIC considered that it was better to cease its reflections at the current stage of the debate, prior to the IASB possibly tackling it.
No IFRIC interpretation on commitments to buy back minority interests

In July 2006, the IFRIC said it would not issue an interpretation on commitments to buy back minority interests. The many comments received since the publication of this decision have not led the IFRIC to reconsider its position. The committee justifies its decision by pointing out that no consensus could be reached within a reasonable time limit.

As a reminder that there is a debate on the counterpart of a liability for the buy-back commitment:

- Some suggest the whole debt should be recognised in equity, whether minority interests or equity attributable to equity holders of the parent;
- Others recommend constituting goodwill for the fraction which exceeds the amount of minority interests recognised in the accounts.

In the absence of an interpretation, the recommendations issued by the AMF for the 2005 year end should remain current. The AMF is likely to clarify its position on the subject over the coming weeks. As a reminder, the AMF recommended in 2005 that reporting entities should provide:

- A clear explanation of the hypotheses used to calculate the debt;
- An indication of the accounting method used (equity or goodwill);
- A presentation of the treatment of later variations in the debt (income statement or modification of goodwill);
- An indication of the policy adopted by the entity to assess the share of net assets corresponding to this debt (revaluation or non-revaluation of the subsidiary’s assets and liabilities).

Occupational savings plans: there will be no IFRIC interpretation as IFRS 2 is clear

The calculation method for benefits paid to employees in the context of occupational savings plans, as presented in a press release from the CNC dated 21 December 2004, has been disputed many times. The debate was brought to the IFRIC. The committee has just confirmed that it will not publish an interpretation.

As a reminder, the method proposed by the CNC for calculation of the “inalienability discount” was based on the cost of a strategy to make the shares available again:

- 5-year short selling of shares held through an occupational savings plan, including dividends;
- Subscription to a five-year bond, for the amount that would be required to buy the same number of shares on the market;
- The loan rate corresponds to the best rate at which the affected population could borrow, i.e. the rate for individuals.

In practice, the application of these parameters results, in most cases, in the “inalienability discount” largely compensating for the initial discount, thus significantly reducing the cost to be recognised in the entity’s accounts (for an initial discount of 20%, the valuation of the benefit granted to employees generally comes out at about 5% of the share price at the date of attribution).

The disputes relate to the valuation parameters (use of the inter-bank rate and not the rate for individuals) as well as to the method itself, which does not reflect the fair value of the benefit awarded.

In its definitive “wording for rejection”, the IFRIC said that under IFRS 2, the financial conditions available to all market players should be taken into account, not just those for individuals.

Since then, the CNC has brought together the affected parties in order to reflect on the consequences of this “wording for rejection”.

News in Brief
IFRS 2 – Share-based Payment has raised many questions since its publication in February 2004, and one interpretation relating to this area has already been published. As a reminder, this interpretation (IFRIC 8) stipulates that IFRS 2 applies to transactions in which the consideration received in exchange for a share-based payment is not identifiable, and an expense should be recognised in the accounts. This interpretation became obligatory on 1 May 2006.

This month, IFRIC published the IFRIC 11 interpretation relating to Group and Treasury Share Transactions, and more specifically to share options granted to employees of a subsidiary. These options can take various forms, as they can be granted by the parent company or the subsidiary, they can involve the parent company’s or the subsidiary’s equity instruments, and the shares can be issued by the parent company or the subsidiary. This interpretation primarily relates to the individual accounts of the subsidiary or parent company as they relate to such transactions under IFRS. However, it similarly relates to the consolidated accounts of sub-groups which may have share option plans in partnership with the parent company.

In order to understand the impact of this interpretation, we must remember that under IFRS 2, the recognition of share option plans in the accounts depends on the settlement method:

- Equity-settled plans are credited as consideration for equity instruments in the income statement, for a value corresponding to the fair value of the option at the grant date. Changes in the fair value of the option do not affect the expense to be recognised during the period over which the rights are acquired.

- Cash-settled plans, which include those where the company makes a settlement in shares and pledges to buy them back, are credited to liabilities in the income statement. Any changes in the value of the debt should be recognised in the income statement, depending on changes in the fair value of the benefit granted to employees.

The debt ratio (debt or equity) and the volatility of the result are thus affected by whether the plans are equity-settled or cash-settled.

The IFRIC’s principal conclusions are as follows:

- The expense under IFRS 2 must be recognised in the accounts of the subsidiary which receives the services from the beneficiaries, whichever entity granted the option rights;

- Plans relating to shares in the subsidiary are always equity-settled plans, whichever entity granted the option rights (parent or subsidiary), even if the entity must acquire the shares on the market or from a third party through a cash outflow;

- Plans relating to shares in the parent company are equity-settled plans if the rights are granted by the parent company;

- Plans relating to shares in the parent company are cash-settled plans if the rights are granted by the subsidiary, as it must transfer the financial assets to the beneficiaries;

- The parent company recognises rights granted to employees of its subsidiary in its own accounts as an increase in its investment in the subsidiary.

This interpretation has not yet been passed by the European bodies. Once it has been passed, it will be obligatory for financial years beginning on or after 1 March 2007.
Following a particularly long preparation process, the IASB published the definitive IFRIC interpretation on public service concessions on 30 November 2006. DOCTR’ in summarises the main elements of this long-awaited interpretation.

What contracts does IFRIC 12 apply to?

IFRIC 12 applies to “public to private service concession arrangements” for which:

- The grantor controls or regulates the nature of the service to be provided, to whom the service is provided and at what price; and
- The grantor controls any residual interest in the infrastructure of the concession contract at the end of the contract.

The interpretation stipulates that contracts which do not meet both conditions must be recognised in accordance with IFRIC 4 – Determining whether an Arrangement contains a Lease. IFRIC 4 and IFRIC 12 thus apply to mutually exclusive areas.

IFRIC 12 does not apply to contracts relating to installations owned and exploited by the operator prior to the concession contract.

The IFRIC interpretation only addresses accounting by the operators. Accounting by the grantor is not covered by IFRIC 12.

A variety of accounting models

The interpretation confirms that there are various accounting models for concession contracts:

- Financial asset model
- Intangible asset model
- Mixed model.

Financial asset model

This model applies when the operator has the right to receive a fixed amount of cash:

- From the grantor; or
- From users, but guaranteed by the grantor.

This right meets the definition of a financial asset which must be recognised in the accounts in accordance with IAS 39. The services provided by the operator are recognised in the accounts in accordance with IAS 11 for the portion relating to the construction phase and in accordance with IAS 18 for service provision. The operator’s obligations to maintain the infrastructure are recognised in the accounts in accordance with IAS 37, unless they are the object of specific billing.
**Intangible asset model**

This model applies if the operator has the right to charge users, with no guarantee of a minimum income from the grantor.

This right is an intangible asset recognised in the accounts in accordance with IAS 38. The services provided by the operator are recognised in the accounts in accordance with IAS 11 for the portion relating to construction and in accordance with IAS 18 for service provision. The operator’s obligations to maintain the infrastructure are recognised in the accounts in accordance with IAS 37.

**Mixed model**

This model must be applied when the concession contract has characteristics of both the financial asset model and the intangible asset model. The operator must recognise in the accounts:

- a financial asset for the right to receive a fixed amount of cash;
- an intangible asset for the right to charge users.

**Recognition of the product of constructing the asset**

The intangible asset and/or the financial asset are initially recognised in the accounts at their respective fair values at the end of the construction phase for the conceded asset.

In the case of the financial asset, the initial value is equal to the current value of payments to be received from the grantor. This fair value should cover the construction costs and the construction margin.

In the case of the intangible asset, the asset must be recognised in the accounts according to the rules on intangible assets acquired through exchange. This rules require that the asset be recognised at its fair value unless:

- The transaction has no commercial substance; or
- Neither the fair value of construction services rendered to the grantor nor the fair value of the intangible asset can be reliably determined.

The fair value of the intangible asset must cover the construction costs and the construction margin.

**Application dates and interim regulations**

The IFRIC 12 interpretation is applicable to financial years starting on or after 1 January 2008. Early application is encouraged.

IFRIC 12 must be applied retrospectively. If retrospective application is impossible, the amounts recognised according to previous regulations (for example, as tangible assets) are reclassified at the opening of the first year as financial assets or intangible assets. A depreciation test must then be carried out.
The recent publication of several standards and interpretations by the IASB necessitates a reminder that these texts are not immediately applicable to listed companies in Europe. There is a difference between the IASB’s own publication process and the adoption process, which falls to the charge of the European Union. Therefore, as 31 December 2006 approaches, the question of which standards and interpretations actually apply is preying on the minds of many reporting entities and auditors.

- Proposed standards which the IASB is currently working on cannot be applied as they do not form part of the body of published standards. Thus, it is not possible to apply draft exposures relating to the Business Combinations – Phase II project.

- Proposed interpretations which IFRIC is currently working on can be taken into account if the following two conditions are met:
  - The proposal does not contradict the applicable IFRS standards;
  - The proposal will not modify an existing interpretation which is currently obligatory.

- Standards and interpretations which have been published by the IASB but not yet adopted by the European Union can be applied if the EU adoption process is finished before the closing of accounts by the competent body (i.e. usually the board of directors).

Current stage of the EU adoption process for standards, amendments and interpretations published by the IASB and IFRIC since 31 March 2004.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Theme</th>
<th>Date of implementation according to IASB</th>
<th>Adoption in Europe</th>
<th>Applicable as of 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 6</td>
<td>Exploration for and evaluation of mineral resources</td>
<td>1/01/2006</td>
<td>24 November 2005</td>
<td>Yes</td>
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<td>IAS 19 Amendments</td>
<td>Employee benefits: option for entities to recognise actuarial gains and losses as they arise in a statement of recognised income and expense</td>
<td>1/01/2006</td>
<td>24 November 2005</td>
<td>Yes</td>
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<tr>
<td>IAS 39 Amendments</td>
<td>Transition and initial recognition of financial assets and liabilities</td>
<td>1/01/2006</td>
<td>26 October 2005</td>
<td>Yes</td>
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<tr>
<td>IAS 39 Amendments</td>
<td>Cash flow hedges accounting of forecast intra-group transactions</td>
<td>1/01/2006</td>
<td>21 December 2005</td>
<td>Yes</td>
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<tr>
<td>IAS 39 Amendments</td>
<td>Modification of the Fair Value option</td>
<td>1/01/2006</td>
<td>21 December 2005</td>
<td>Yes</td>
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<td>IFRS 1 IFRS 6 Amendments</td>
<td>Clarification on the exemption from the requirement to provide comparative disclosures for companies applying IFRS 6 early</td>
<td>N/A</td>
<td>27 January 2006</td>
<td>Yes</td>
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<td>Standard</td>
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<td>Adoption in Europe</td>
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<tr>
<td>IFRS 7</td>
<td>Financial instruments: disclosures of the risks to which the entity is exposed through the use of financial instruments, and the management of these risks. Replaces IAS 30 and modifies IAS 32</td>
<td>1/01/2007 Early application encouraged</td>
<td>27 January 2006</td>
<td>Yes</td>
</tr>
<tr>
<td>IAS 1 Amendments</td>
<td>Disclosures of the objectives, policies and processes for managing capital.</td>
<td>1/01/2007 Early application encouraged</td>
<td>27 January 2006</td>
<td>Yes</td>
</tr>
<tr>
<td>IAS 39 Amendments</td>
<td>Financial guarantee contracts: inclusion of the resulting liabilities in the balance sheet.</td>
<td>1/01/2006 Early anticipation encouraged</td>
<td>27 January 2006</td>
<td>Yes</td>
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<tr>
<td>IAS 21 Amendments</td>
<td>Extension of the notion of net investment in a foreign operation to include operations denominated in a different currency to the operating, reporting or presentation currency.</td>
<td>1/01/2006 Early application encouraged</td>
<td>9 May 2006</td>
<td>Yes</td>
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<tr>
<td>IFRS 8</td>
<td>Operating segments. Implementation of « management approach ».</td>
<td>1/01/2009 Early application encouraged</td>
<td>Not before June 2007</td>
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<th>Interpretation</th>
<th>Theme</th>
<th>Date of implementation according to IASB</th>
<th>Adoption in Europe</th>
<th>Applicable as of 30 June 2006</th>
</tr>
</thead>
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<tr>
<td>IFRIC 1</td>
<td>Changes in existing decommissioning, restoration and similar liabilities.</td>
<td>1st 2005 accounts</td>
<td>31 December 2004</td>
<td>Yes</td>
</tr>
<tr>
<td>SIC-12</td>
<td>Special purpose entities: removal of the exclusion of equity compensation plans from the scope of SIC-12. Exclusion of long-term employee benefit plans.</td>
<td>1st 2005 accounts</td>
<td>26 October 2005</td>
<td>Yes</td>
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<tr>
<td>IFRIC 2</td>
<td>Classification of members’ shares in co-operative entities as financial liabilities or equity.</td>
<td>1st 2005 accounts</td>
<td>8 July 2005</td>
<td>Yes</td>
</tr>
<tr>
<td>IFRIC 3</td>
<td>Accounting treatment of emission rights</td>
<td>Financial years starting on or after 1/03/2005</td>
<td>Rejected by EFRAG Withdrawn by IASB on 24 June 2005</td>
<td>No</td>
</tr>
<tr>
<td>IFRIC 4</td>
<td>Determining whether an Arrangement contains a Lease</td>
<td>1/01/2006 Early application</td>
<td>24 November 2005</td>
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<td>Interpretation</td>
<td>Theme</td>
<td>Date of implementation according to IASB</td>
<td>Adoption in Europe</td>
<td>Applicable as of 30 June 2006</td>
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<td>IFRIC 5</td>
<td>Exclusion of interest in funds dedicated to reimbursement of decommissioning costs from the scope of IAS 39</td>
<td>1/01/2006 Early application encouraged</td>
<td>24 November 2005</td>
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<td>IFRIC 6</td>
<td>Events triggering recognition of liability for recycling electrical and electronic equipment.</td>
<td>Financial years starting on or after 1/05/2006 Early application encouraged</td>
<td>27 January 2006</td>
<td>Yes</td>
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<tr>
<td>IFRIC 7</td>
<td>Financial Reporting in Hyperinflationary Economies</td>
<td>Financial years starting on or after 1/03/2006 Early application encouraged</td>
<td>9 May 2006</td>
<td>Yes</td>
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<td>IFRIC 8</td>
<td>Scope of IFRS 2: inclusion of transactions where an entity receives apparently nil or inadequate compensation</td>
<td>Financial years starting on or after 1/05/2006 Early application encouraged</td>
<td>9 September 2006</td>
<td>Yes</td>
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<tr>
<td>IFRIC 9</td>
<td>Reassessment of embedded derivatives</td>
<td>Financial years starting on or after 1/06/2006 Early application encouraged</td>
<td>9 September 2006</td>
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<td>IFRIC 10</td>
<td>Interim financial reporting and impairment</td>
<td>Financial years starting on or after 1/11/06 Early application encouraged</td>
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<tr>
<td>IFRIC 11</td>
<td>Group and Treasury Share Transactions</td>
<td>Financial years starting on or after 1/03/07 Early application permitted</td>
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<tr>
<td>IFRIC 12</td>
<td>Concessions</td>
<td>Financial years starting on or after 1/01/08 Early application permitted</td>
<td>(2) (2)</td>
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</table>

(1) The EFRAG is expected to recommend the adoption of this interpretation during December. The ARC should make a statement on the adoption of IFRIC 10 at its February 2007 meeting. The definitive EU adoption of IFRIC 10 is expected in May 2007.

(2) Given the three-month period allowed to the European Parliament to examine proposed regulations, it is in our opinion unlikely that this text will be formally adopted by the European Union before 31 December 2006.

Remember that the appendices for entities reporting under IFRS must include a list of the standards and interpretations published by the IASB that the entity has not yet applied as the obligatory application date has not yet been reached. This list should be accompanied by the entity’s estimate of the application of these standards and interpretations.
The IAS and SMEs project has been underway for more than two years at the IASB. After the publication of a Discussion Paper in 2004, followed by a questionnaire and round-table discussions at the end of 2005, the exposure draft is expected by the end of the year. In order to keep affected parties informed, an initial exposure draft, not open to comments, was published on the IASB site in August 2006.

What is the goal of the project?

The IASB’s goal is to provide a simpler accounting framework which is better suited to the requirements of SMEs. These are considered to be entities with no public accountability which prepare financial statements for external users. Only unlisted companies will be affected a priori. Banks and insurance companies cannot use this framework. Legislators will have plenty of latitude to determine the thresholds beyond which the full IFRS framework should be used. Similarly, while the text applies in principle to separate and consolidated accounts, the scope of actual use will be defined in each State. Thus, in France, the use of the IFRS framework by SMEs for their separate accounts will not be permitted in the short term.

Taking into account the comments provided by various affected parties, notably the EFRAG, the IASB has created an autonomous framework for SMEs, including:

- A conceptual framework
- A hierarchy of texts covering the operations that an SME may have carried out that are not specifically covered by the framework for SMEs
- A basis for conclusions.

What adaptations have been made to the IFRS framework?

The planned IFRS framework for SMEs includes both additions which facilitate the application of standards, and simplification methods:

- Model financial statements for both the summary statements and the appendices.
-Retention of all the accounting options available under IFRS. However, only the simplest option is included in the text of the IFRS standard for SMEs. The others require referral to the IFRS standards. This is the case, for example, of the revaluation model for tangible and intangible assets or for capitalisation of borrowing costs for assets (notably buildings and stocks) during the construction period.
- The removal of certain options such as the possibility of spreading actuarial gains and losses for certain employee benefits.
- Adjustments to the IFRS accounting principles to provide simpler solutions. These include for example:
  - The possibility of recognising development costs as an expense, which is not a valid option under the full IFRS framework.
Focus Studies

- The introduction of two categories of financial assets compared with four in the full framework: financial assets at fair value, with variations in value recognised in the profit and loss account for assets whose fair value can be reliably determined; and financial assets at amortised cost for a limited list of assets such as receivables and for financial assets whose fair value cannot be reliably determined.
- Less restrictive accounting principles for simple hedging operations, though retaining the obligation to recognise derivatives in the balance sheet.

Although certain areas are still being studied (for example deferred tax and depreciation of long-term assets) and others could doubtless do with some adjustments (share-based payments refer back to IFRS 2 which was clearly designed for listed companies), the project is now in the final straight.

Calendar of upcoming meetings of the IASB, IFRIC and EFRAG

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<th>IASB</th>
<th>IFRIC</th>
<th>EFRAG</th>
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<tr>
<td>22-26 Jan 2007</td>
<td>11 and 12 Jan 2007</td>
<td>10-12 Jan 2007</td>
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Events / publications

Conference organised by Mazars Lille and the DFCG
Jean-Louis LEBRUN summarised companies’ experience of the changeover to IFRS at this conference for financial executives in Lille. He also gave a snapshot of current IFRS news.

“Cahier Mazars” on related parties
Mazars’ Doctrine team has analysed the financial information published by Eurostoxx 50 groups for information on related parties. The analysis was summed up in a technical brochure available on demand (doctrine@mazars.fr).

Mazars presents IFRS / US GAAP convergence in Milan
Mazars in Italy organised a conference on Monday 20 November on the theme: IFRS and US GAAP: towards full convergence? The goals of this day were to give an overview of accounting standardisation between France and Italy and of the convergence between IFRS and US GAAP. Several experts spoke at the event: Atul Rai from the University of Alabama; Françoise Flores, Michel Barbet-Massin and Jean-Louis Lebrun, partners at Mazars, and Riccardo Bauer, a professor at the Catholic University of Milan. Vincenzo Miceli, a partner at Mazars in Italy, and Claudia Mezzabotta of the Milan office explained the Italian approach to the subject.

Issues most frequently raised with the Doctrine department

IFRS standards
- Triggering events for recognition as income of receivable insurance indemnities following an accident,
- Presentation format to be used in the balance sheet and the P&L account for shares in an associated company if there is a significant loss of influence, in the context of disengagement from an activity,
- Identification of an ad hoc entity and a potential controlling relationship,
- Accounting treatment of derecognition of trade receivables,
- Change of operating currency,
- Accounting treatment of mutual promises to buy and sell shares,
- Validation of identification of cash generating units,
- Consolidation method for joint ventures;
- Accounting treatment of a flat-rate indemnity for works, received from the lessor on signing a lease;
- Accounting treatment of sale of property before completion of construction,
- Method of recognising income in the housing development business.