A number of subjects are under review by the IASB in this new year 2007: SMEs and IFRS, loan costs, joint ventures, presentation of financial statements, income taxes, etc. We will keep you posted of any developments in these areas.

In the meantime Doctr’in examines the interpretation project for D20 – Customer loyalty programmes.

Happy reading !

Michel Barbet-Massin   Jean-Louis Lebrun
IAS 37 round tables

In November and December 2006, the IASB held three round tables on the content of IAS 37, in London, in the US and in Australia. Current discussions relate to the accounting of non-financial liabilities (removal of the accounting criterion based on probability) and their valuation (weighting of estimated amount/probability of outflow).

Interest margin hedge

Over the past two and a half years, closed-door discussions between the European Banking Federation (EBF) and the IASB have been held in order to define the amendments for the IAS 39 standard with a view to removing the European "carve-out". For the first time, a debate has been held in public. According to the IASB, the cash-flow hedging measures defined in the IAS 39 standards are in line with the hedging measures described by banks.

The EBF said that the proposed hedging approach would never consider bank deposits as hedged items, and that the designation would cover gross assets and liabilities, even if the designation process was the outcome of a net risk analysis. In addition, retrospective efficiency tests (before including new operations) should be carried out.

The IASB said that IAS 39 does not require a precise identification of future transactions (subject to hedging). Those paragraphs of IAS 39 that could prove confusing will be jointly reviewed, in order to determine whether it is necessary to amend IAS 39.

Presentation of the financial statements of financial institutions

Following a first meeting with the members of a specialised working group, the IASB highlights that the first proposed principles for the presentation of financial statements could easily be applied to financial institutions. This mainly stems from the flexibility provided by the choice of a presentation “through the eyes of management”.

However, it is already clear that from the same principles, financial institutions could present financial statements that would be very different from those of other companies.

Management reports

The IASB has unanimously agreed to add to its agenda a project to define a non-mandatory standard for the presentation of management reports. This decision should be confirmed following consultation with the SAC and the Board of Trustees.

Intangible fixed assets

The IASB has confirmed its intention to launch, at the end of 2007, the development of a new standard for the accounting of intangible fixed assets created or purchased out of business combinations. The IASB will try to include the FASB in a joint project.
IAS 37 – Non-financial liabilities

Following the round tables in November and early December 2006, the IASB has made a progress report on the project.

Having confirmed the objective of the project and defined the major topics which merit further analysis, the IASB has reviewed its programme and schedule. The publication of the revised standard is now set for October 2008.

Debt / Equity distinction

With the announcement of the publication of the FASB’s reflection paper in May, the IASB is preparing to launch its own request for comments which will draw upon the proposals from the FASB. The FASB will propose three different models for the separation of debt and equity. The EFRAG, in its proactive approach, has developed a fourth method which will be presented to the two boards of the IASB and FASB, during their joint meeting in April.

“Measurement” round tables

Given the complexity and scope of the practical impact of this issue, the IASB organised several round tables in January 2007, in Hong Kong, London and Norwalk. Jean-Louis Lebrun, a partner of Mazars and member of the IFRIC, attended the London round table on January 29, 2007.

A detailed report on the outcome of this round table will be published in the next issue of Doctr’in.

IFRIC Draft Due Process Handbook

The IASB has reviewed the major proposals of the IFRIC consultation process handbook project. The IASB is in favour of the greatest possible transparency and has therefore recommended the dissolution of the Agenda Committee in its current form. Agenda decisions should be discussed directly by the IFRIC, according to the Board. In addition, the IASB favours the status quo as regards “wordings for rejection”. It now falls to the Trustees of the IASC to give their views during their upcoming January meeting.

Wording for rejection

In the November 2006 issue, Doctr’in backed the review initiated at the European level (FEE, CESR, BusinessEurope) to determine the impact of the “wordings for rejection” published by the IFRIC on financial statements from European companies.

The issue concerns the treatment of changes in the accounts resulting from these “wordings for rejection”: is it a question of error correction or of a change in accounting policy?

The conclusions of the discussions held in November and December 2006 were published at the end of January 2007 by the European Federation of Accountants. They highlight the need for the IFRIC to develop a formalised process for issuing rejection notices on specific subjects. These “wordings for rejection” could have the same statute as the implementation guidance published by the IASB.

The “wordings for rejection” have no standard value, but they account for a part of doctrine submitted to public comments.

As a consequence, taking into account a “wording for rejection” on a specific subject could lead to an ad hoc presentation which would not qualify the nature of the accounting change and would be limited to a presentation of the facts themselves.
On September 7th, 2006, the IFRIC published the interpretation project for IFRIC D20, which relates to accounting for customer loyalty programmes. A comment period was opened until November 2006 and Mazars did take the opportunity to send its comments.

According to this project, the loyalty programmes implemented by the entities should be accounted for as follows:

- Part of the cost paid at the initial selling date should be allocated to the loyalty programme through the registration of an income brought forward. The income would be deferred until the points or other benefits granted to the client at the initial sale have been used by the client;
- The income brought forward would be valued with reference to the fair value of the benefits granted to the client and not to the costs incurred for these benefits by the company. The price of the initial sale would then be broken down between the fair value of the good or service and the fair value of the benefit granted to the client.

Following the IASB’s request for comments, some 57 letters have been received and analysed by the staff. The interpretation project was reviewed on this basis during the most recent meeting of the IFRIC at the beginning of January 2007.

Mazars presents a summary of the major comments submitted:

* A common practice with disparate accounting methods

The vast majority have welcomed the IFRIC’S initiative to add this subject to its agenda: many companies do implement customer loyalty programmes, and the lack of specifics about the accounting treatment in the current IFRS standards has led to a disparity of practices which limits the comparison of financial statements.

* The scope is too broad

The scope of the interpretation project should be modified. For several companies, the scope is too broad and should clearly exclude those loyalty programmes which can be considered marketing expenses (programmes for which the benefit granted is a good or service provided by a third party or for which the benefit granted has a negligible value compared with the sales needed to get the benefit). The IFRIC said during its most recent meeting that the basis for conclusions for this interpretation could be more complete in order to explain why loyalty programmes are not classed as marketing expenses. In addition, the IFRIC wants to restrict D20 solely to benefits granted within a sale transaction. Benefits granted to potential clients would therefore be excluded from D20.
An accounting treatment sparks debate

The consensus proposed in D20 is not unanimously accepted. It says that one single accounting treatment should be applied to all the in-scope loyalty programmes:

- A company should defer that portion of sales which corresponds to the benefit to be granted in the future, through the registration of an income brought forward. Sales linked to the benefits would therefore be registered only when the benefit is actually granted;
- The benefit granted would be valued at fair value and not at the cost incurred by the company. The amount perceived at the initial sale would therefore be divided between the fair value of the good or service and the fair value of the retention benefit granted.

Only 16 letters of comment support this consensus. The mixed approach is the most popular (20 letters), while 16 letters of comment support accounting the liability corresponding to the benefit granted as a cost, by means of a provision.

The IFRIC reviewed the letters opposing the consensus expressed in D20 during its January 2007 meeting. While upholding the consensus, the IFRIC says that several changes will be brought to the interpretation project in order to clarify the accounting treatment as regards programmes in which liability to grant a benefit in the future is transferred to a third party from the outset. In this case, the whole amount of the initial sale would be immediately registered as a profit.

The IFRIC will specify the implementation guidance of the fair value allocation methods to the different parts of a transaction in a future meeting. The IFRIC should also explain the transition rules and the date the interpretation will come into effect.

Calendar of upcoming meetings of the IASB, IFRIC and EFRAG
Events / publications

IMA France Conference

Jean-Louis Lebrun, member of the IFRIC, is lecturing in an IMA-France conference on 13th February 2007 on the subject of concessions and IFRIC 12 interpretation.

Issues most frequently raised with the Doctrine department

IFRS standards

- The deconsolidating effect of an agreement on the sale of a carry-back debt;
- Which consolidation method to use for a joint-venture in view of the specific operating practices of the company;
- How to register bonuses granted to managers on completion of various objectives, on the condition of remaining employed within the company for a determined period;
- Accounting of a reversed acquisition in the accounts of the purchasing company from an economic point of view;
- Accounting of R&D costs for a car components company under IFRS standards, including the treatment of the financing received from carmakers for the development of prototypes and tools;
- Accounting of perpetual floating rate notes issued with both fixed remuneration and variable remuneration;
- Accounting of a gas forward purchase contract;
- Implementation clauses of the revised IAS19 option relating to the accounting of all the actuarial gains and losses directly through equity, and consequences of a change in actuarial hypothesis;
- Provision of guaranteed minima within a contract

- Incurred a loss;
- Accounting treatment of the sale of a subsidiary to an associate;
- Treatment of exit tax without a revaluation of the buildings within the SSII option scheme;
- Treatment of the demolition costs and carrying amount of a building being demolished;
- Treatment of the products from the transformation of biological assets under IFRS;
- Definition of the current operating result;
- Accounting of a deferred tax asset following a business combination;
- Removal of the effects of a conversion option on an issued convertible bond, through repurchase of the conversion option or through subscription to a financial instrument with the same effects;
- Accounting of tax optimisation effects linked to a revaluation of fixed assets;
- Reversed acquisition in view of an IPO.

Doctrine in daily life

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