Among the hot topics of this spring, this issue of Doctr’in focuses on an analysis of technical issues (consolidation methods and the presentation of financial performance) but also on more political issues (the adoption process for standards in Europe). In addition, with the half year accounts for a number of listed companies in view, we also focus on the IFRS standards and interpretations applicable at June 30 2007, on the changes in financial information and on the information provided by the groups on the implementation of the new rules.

There is also significant news from across the Atlantic, with the recent announcement from the SEC that the IFRS/US GAAP reconciliation will no longer be compulsory by 2009 at the latest.

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Mazars Newsletter on Technical Support

DOCTR’in

N°4 – April / May 2007

News

SEC to accept IFRS financial statements

On April 24, the US Securities and Exchange Commission (SEC) issued a press release stating that it expected to accept the publication of financial statements under IFRS standards.

More precisely, a request for comments on proposed changes to the US regulator’s rules is planned for this summer. The changes would allow the use of IFRS in financial statements filed by foreign issuers, who would no longer be required to provide a reconciliation to US GAAP.

Moreover, US issuers could also be entitled to choose between IFRS and US GAAP for their financial statements.

Both comments and changes are expected in the autumn of 2007. The removal of the reconciliation requirement is planned for 2009 or even earlier, as announced at the meeting held on April 30 in Washington between George W Bush for the US and Angela Merkel and José Manuel Barroso for the European Union.

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The adoption of IFRS 8 “Operating segments” called into question

Since the beginning of the adoption process for IFRS 8, many opponents to this standard in Europe have raised the issue with the European Commission and Parliament. They emphasise the potentially negative impact of this new standard on the comparability of accounts. Indeed, IFRS 8 relies on the “management approach” to present segment information, which means that the figures would not necessarily be in line with the financial statements in IFRS. In this case, a reconciliation will have to be provided in the notes to the accounts.

Despite the recommendations of the EFRAG and the ARC in favour of adoption, the European Parliament has decided to delay the standard’s endorsement by the European Commission until September 30 2007.

On April 18 2007, the European Parliament published a motion calling on the European Commission to carry out an impact assessment of the implementation of this standard.

The European Commission has started the process of analysis with the publication of a questionnaire, available on the EFRAG website (www.efrag.org) to be completed by June 29 2007. The questions focus on perceptions of the quality of information provided under IFRS 8 and the cost/benefit balance generated by the introduction of the new standard.

New option for the measurement of non-controlling interests in business combinations

At its April 2007 meeting, the IASB decided to introduce an option for the measurement of non-controlling interests. They will therefore be measured either:

- at fair value,
- or at the proportional share in the identified net assets at the time of acquisition.

The Board allows the implementation of the option on a case by case basis and the application of the option is not mandatory for all acquisitions.

This option allows the validation by the two Boards (IASB and FASB) of the new draft standard on business combinations. The revised IFRS 3 and IAS 27 standards have been formally approved by the two Boards and should finally be published in the third quarter of 2007.

IAS 24: Mazars’ answer to the IASB’s exposure draft

On May 24 2007, Mazars provided its comments to the IASB, following the publication of the exposure draft proposing changes to IAS 24 on third party disclosures (see Doctr’In issue of February 2007).

The proposed changes aim to:

- provide, under certain circumstances, an exemption on publication of the information required under IAS 24 for entities controlled or significantly influenced by a State,
- provide consistency and clarify the current definition of a related party.

Overall, Mazars endorses the Board’s proposal to provide an exemption to entities controlled or significantly influenced by a State, under certain circumstances. However, Mazars believes that the indicators approach proposed in the exposure draft calls the expected benefits of the exemption into question.

Under this approach, an entity will have to identify the indicators (non-market rate transactions, shared resources, common members at the Executive Board etc.) that illustrate the potential influence of State ownership on the transactions carried out with another entity. Mazars believes that the implementation of this approach will be burdensome for the relevant entities and that the identification of one or several indicators only provides a presumption, which could be rebutted, of the potential influence on transactions.
In addition, Mazars endorses the proposals to clarify and bring more consistency to the definition of a related party. Finally, Mazars calls on the Board to define the concepts of “significant voting power” and “key manager”. Their interpretation by companies varies widely, as shown by the survey carried out by Mazars on IFRS financial statements for 2005 for Eurostoxx 50 companies in July 2006 (Mazars’ booklet is available from the doctrine department upon request to doctrine@mazars.fr).

**Insurance Contract Project – phase II**

After more than two years of brainstorming, the Insurance Discussion Paper, which is the first step of the Insurance Contract Project – phase II, has just been released.

The IASB has launched a request for comments by November 2007, in order to help establish the future exposure draft (by 2010).

The goal of the standard is to harmonise accounting principles for insurance contracts, as this has not been achieved by phase 1. The majority of insurance liabilities are still accounted for according to local GAAPs.

The Insurance Contract Project – Phase II is being carried out in a tight environment. The IFRS set of standards is changing on key subjects such as fair value measurement, revenue recognition and accounting for non-financial liabilities. The regulatory changes - the Solvency II draft - also contribute to the definition of a common measure for insurance contracts.

One of the major areas of discussion is the recognition of initial margin. The Discussion Paper describes two models, one referring to the amount of the premium paid by the policyholder when subscribing (entry value) and the other to the current exit value.

The Board favours the current exit value. However, it is difficult to assess, as the market which might permit such transfers is not yet available. This choice appears to be in line with the Fair Value Measurement Discussion Paper, which allows for the recognition of an initial margin, whatever the sustainability of the model used.

The treatment of participating contracts (the majority of French contracts) is also subject to debate, both on the treatment of the deposit component (to be measured as the insurance component, if the components are so interdependent that they can be measured individually only on an arbitrary basis) and on the treatment of policyholders’ rights in unrealised gains and losses included in the assets under IAS 39.

As soon as there is a legal or “constructive” obligation (see IAS 37 – a practice under which policyholders may have legitimate dividend expectations), policyholders’ rights may be recognised to the extent of insurance liabilities. This approach would allow the transfer of the discretionary policyholders’ participation to the extent of insurance liabilities.
Appointment of new IFRIC members

As the mandates of Jeannot Blanchet, Domingo Marchese, Mary Tokar and Ian Wright are coming to an end, the trustees of the IASC Foundation have appointed four new members:

- **Guido Fladt**, Partner - PwC in Germany, is a member of the Global PwC Corporate Reporting Task Force;
- **Bernd Hacker** comes from Siemens in Germany and has substantial experience in the financial sector;
- **Darrel Scott** is Head of Group Finance in the South African bank FirstRand Banking Group;
- **Andrew Vials**, Partner - KPMG, is head of the UK firm’s Department of Professional Practice.

The IFRIC members are appointed for three years and are eligible for reappointment.

In addition, the Trustees have expressed their willingness to widen participation in the interpretation process, and have suggested that the number of members be increased from 12 to 14. This proposal is currently subject to public comments.

IFRIC to publish a draft interpretation on the hedging of a net investment in a foreign operation

Following its meeting in May, the IFRIC has announced plans to publish a draft interpretation on the treatment, in consolidated accounts, of instruments designated to hedge net investments in foreign operations.

The issues

According to IAS 21, **The Effects of Changes in Foreign Exchange Rates**, a net investment in a foreign operation is the amount of the reporting entity’s interest in the net assets of that operation. This investment may take the form of a branch, a subsidiary, a joint-venture or an associate.

The exchange differences generated by a foreign net investment (operations and results) must be treated as a separate component of equity. These exchange differences are included in the profit and loss account on disposal of the foreign net investment.

In line with IAS 39, companies may hedge net investments in foreign operations in order to protect themselves from foreign exchange rate fluctuations. In this case, the effective portion of the hedge is recognised directly in equity, offsetting the exchange difference generated by the investment (the effective portion of the hedge is also recognised in profit or loss on disposal of the foreign operation). The ineffective portion of the hedge is recognised immediately in profit or loss.

The IFRIC draft interpretation addresses the following two issues:

- **What risk related to a foreign net investment is eligible for hedging?** The parent company of a group may have exposure to several foreign exchange rate fluctuation risks (in the case of intermediate foreign investments). A parent company may also use a presentation currency of the consolidated accounts that is different from the functional currency (i.e., the currency of the major economic environment in which the entity operates);
- **Which entity within the group may bear the hedging instrument?** IAS 39 allows the use of derivatives, non-derivative instruments or a combination of both to hedge a net investment in a foreign operation. The draft interpretation will provide guidance as to where those various instruments may be held within the group so as to qualify as hedging instruments.
News in brief

IFRIC answers so far

According to IFRIC, the hedged risk is the exchange gain or loss recognised in equity arising from the difference between the functional currency of the net investment in a foreign operation and the functional currency of the parent company hedging its net investment. IFRIC therefore considers that foreign exchange rate variations between the functional currency of the parent and the presentation currency of the consolidated financial statements cannot be hedged.

On the second issue, IFRIC’s temporary decision is that in a group with several entities using different functional currencies, the risk eligible for hedging a net investment in a foreign operation is the fluctuation between the currency of the foreign operation and any parent entity, whatever the consolidation level. Therefore, a hedging relationship will not be challenged at the ultimate parent level of a group, provided that the same risk is not hedged twice.

Finally, transitional provisions of the draft interpretation state that the interpretation shall be applied prospectively.

Technical support daily life

Issues most frequently raised with the Technical support department

- Issuance of subordinated securities without maturity date: liabilities or equity?
- Accounting consequences of the rescheduling of payments of trade payables in a continuation plan;
- Classification of a deferred interest rate subordinated swap, recognition as a hedging instrument;
- Calculation of earnings per share;
- Isolated assets and exchange of shares in an operations’ split agreement;
- Implementation of impairment tests on goodwill related to the purchase of a foreign entity;
- Accounting treatment of calls and puts on convertible bonds issued by a subsidiary;
- Investment properties: amortisation during the redevelopment period.

Calendar of upcoming meetings of the IASB, the IFRIC and the EFRAG

<table>
<thead>
<tr>
<th>IASB</th>
<th>IFRIC</th>
<th>EFRAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 – 21 September 2007</td>
<td>6 - 7 September 2007</td>
<td>5 - 7 September 2007</td>
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</table>
Following several years of discussion within the Board, the Performance Reporting project, renamed “Presentation of financial statements”, will finally result in the amendment of IAS 1. The IASB is expected to publish a revised standard in the coming weeks, that will include the changes decided after phase A of the project.

These changes are only a first step. The current discussions of the Board during phase B may lead to more comprehensive changes in the presentation of performance. Since Europe is only starting to get used to financial statements in IFRS, we thought it useful to present the approved changes and the major developments that are expected.

**Background and goals of the project**

Since 2004, the IASB and the FASB have been working together on Performance Reporting, as part of the convergence project between IFRS and US GAAP. The goal of the two accounting standards bodies is to lead to a method of presentation of financial statements which will help users to better:

- understand the current and past financial situation of a company,
- understand the operational, financial and other components which have resulted in a change in the financial situation of a company year on year,
- use this financial information (linked with information from other sources) to assess the amount, maturity and uncertainties of future cashflows.

The project was split into two phases, theoretically treated distinctly, but with obvious interactions:

- phase A, with the publication of an exposure draft in July 2006,
- phase B, with the expected publication of a discussion paper in the second quarter of 2007.

**A two-phase project**

**Phase A**

Phase A addresses two issues: what statements constitute a complete set of financial statements and which comparative periods are provided. The changes expected in the short term are:

- the names of the financial statements (balance sheet, income statement, cashflow statement and statements of changes in equity) are changed as follows (the change is not mandatory):
  - the balance sheet becomes the “statement of financial position”,
  - the income statement becomes the “statement of comprehensive income”, referring to the US GAAP notion under FAS 130.
- A statement of financial position at the beginning of the first comparative period will have to be provided in case of a reclassification or adjustment (i.e. in line with IAS 8). In practice, this may result in the presentation of four balance sheets in accordance with the obligations under the Prospectus Regulation (presentation of three periods). A change in an accounting method would therefore force a group to publish the Y, Y-1, Y-2 and beginning of Y-2 balance sheets;
- Other recognised income and expense (the US GAAP notion of other comprehensive income), i.e. the amounts directly accounted for in equity and not through the profit and loss, may be presented either after the profit and loss.
(a single statement for the total income and expenses) or in a separate statement. The Board favours the first solution. These other income and expenses include:

- fair value variations on available for sale financial assets;
- realised gains and losses from cashflow hedge;
- exchange differences;
- the revaluation surplus on fixed assets measured according to the revaluation model;
- actuarial gains and losses directly booked to equity (revised IAS 19 option).

- The transfer of certain amounts to the profit and loss (for example, the fair value variations on “available for sale” previously directly recognised in equity, in the event of disposal of the securities) will have to be presented in the notes, as will the tax effect on each component of the other recognised income and expenses;

- Earnings per share (i.e. the net earnings per share as currently calculated under IAS 33) will be the only ratio per share to be provided in the statement of recognised income and expenses.

These decisions, which will be definitively endorsed only when the revised IAS 1 standard is published, do not reflect the comments of the roughly 130 letters received by the IASB following the publication of the exposure draft. The major objections raised are:

- the Board provides no answer regarding the aspects requiring improvement (for example the presentation of the other operational income and expenses). In France, recommendation no 2004-R.02 on the format of financial statements in IFRS has provided solutions for the lack of precision of the current IAS 1 standard;

- the timetable is ill-chosen, since the transition to IFRS is recent in most countries (in Europe in particular). However, the application of the new standard is not expected to be compulsory before January 1 2009;

- the optional characteristics of the proposed changes and the authorised options will negatively impact the comparability of financial statements;

- prior to modifying IAS 1, it would be appropriate to wait for the end of the phase B of the Performance Reporting project.

Phase B

Phase B is indeed the key part of the project, as it addresses the way in which financial information is presented in financial statements. The IASB and the FASB have reached an agreement on five working principles:

- provide a consistant image of the financial situation of an entity, by making it possible to link the lines of different financial statements easily;

- separate financing activities (with shareholders and fund providers) from other activities (operations and investments) generally presented under the name “business”;

- help users to assess the liquidity of assets and liabilities of an entity;

- help users to understand:
  - the basics for the measurement of the assets and liabilities;
  - the uncertainties in the measurement of the individual assets and liabilities;
  - the origin of the variations observed in the recognised assets and liabilities.

- Provide a breakdown of certain lines if this makes it easier to anticipate future cashflows, while presenting subtotals and totals.
In practice, these principles would lead to the elimination of the net result being disclosed on a separate line in the income statement, as the other income and expenses would not be presented after the net result but allocated to the various types of operations to which they relate. The revolution is indeed for tomorrow, if the Board’s project leads to a compulsory application.

Below, DOCTR’in summarises the format of the financial statements as presented on the IASB’s website (“Current projects” section):

<table>
<thead>
<tr>
<th>Statement of financial position</th>
<th>Statement of comprehensive income</th>
<th>Statement of cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Business</td>
<td>Business</td>
</tr>
<tr>
<td>✓ Operating assets and liabilities</td>
<td>✓ Operating income</td>
<td>✓ Operating cash flows</td>
</tr>
<tr>
<td>Short-term</td>
<td>✓ Investment income</td>
<td>✓ Investment cash flows</td>
</tr>
<tr>
<td>Long-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Investing assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>Discontinued operations</td>
<td>Discontinued operations</td>
</tr>
<tr>
<td>Financing</td>
<td>Financing</td>
<td>Financing</td>
</tr>
<tr>
<td>✓ Financing assets</td>
<td>✓ Financing income</td>
<td>✓ Financing asset cash flows</td>
</tr>
<tr>
<td>✓ Financing liabilities</td>
<td>✓ Financing expenses</td>
<td>✓ Financing liability cash flows</td>
</tr>
<tr>
<td>Equity</td>
<td>Not applicable</td>
<td>Equity</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Income taxes</td>
<td>Income taxes</td>
</tr>
</tbody>
</table>
The IASB long ago announced its plan to eliminate the proportionate consolidation method for joint ventures. This project is in line with the short term convergence with the US set of standards. The elimination should take effect on January 1, 2009. While awaiting the IASB’s exposure draft - expected before 30 June 2007 according to the timetable set out by the international standard body - DOCTR’ in provides an update on the project and its potential practical consequences.

**Joint ventures: equity method instead of proportionate integration?**

The IASB plans to remove the current option under IAS 31 for the recognition of joint ventures. They would therefore be recognised in the accounts of the co-participants using the equity method, while proportionate consolidation is currently the preferred method under IAS 31. This change would eliminate one of the major differences between the US and international standards on joint ventures.

The consolidation method is not the only significant difference in relation to joint ventures between the two sets of standards. Even the definition of a joint venture is different in US GAAP and IFRS. The US standards essentially consider joint ventures as legal entities, even if several interpretations extend the scope of the accounting rules to partnerships without legal personality. On the other hand, the IAS 31 standard is applicable to all types of joint ventures provided that there is a contract for operating the jointly controlled activity by the co-participants. In practice, the standard must be applied to:

- jointly controlled operations. This is the case for a site operated by several builders grouped in a holding company;
- jointly held assets;
- entities under common control.

**Proportionate consolidation does exist under US GAAP**

While it is true that the US standards require the equity method for the accounting of a vast majority of joint ventures, the US GAAP set of standards contains a significant exception. Joint ventures in the construction and extractive sectors can be consolidated in the accounts of the co-participants using the proportionate consolidation method. This exception, provided by EITF 00-1, is due to the long and established practice in those sectors for the use of this consolidation method.

This exception is therefore justified pragmatically rather than conceptually. The IASB project does not plan to maintain such an exception. Several groups presenting their accounts under US GAAP may thus be forced to use a method forbidden by IFRS in the name of convergence!
In practice, the summary of consolidation differences for joint ventures may be presented as follows:

<table>
<thead>
<tr>
<th>Jointly controlled entities</th>
<th>Jointly controlled assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and extraction</td>
<td>Other sectors</td>
</tr>
<tr>
<td>Real estate</td>
<td>Other sectors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IFRS</th>
<th>PC or EM</th>
<th>PC or EM</th>
<th>Portion of assets and liabilities held</th>
<th>Portion of assets and liabilities held</th>
</tr>
</thead>
<tbody>
<tr>
<td>US GAAP</td>
<td>PC</td>
<td>EM</td>
<td>EM</td>
<td>Portion of assets and liabilities held</td>
</tr>
</tbody>
</table>

PC: proportionate consolidation  
EM: equity method

**Proportionate consolidation: a widespread consolidation method in Europe**

A review of the 2006 annual statements of the Eurostoxx 50 companies shows that the proportionate consolidation method is used by 50% of them. It apparently has a number of benefits for several groups as this method is also used by several companies which also present financial statements under US standards. Maintaining the proportionate consolidation in the IFRS accounts forces them to carry out an adjustment when they complete the 20-F file with the US Securities and Exchange Commission.

The IASB project, if finalised in its current version, will force a significant number of groups to change the structure of their consolidated accounts and to review the presentation of their operational activities. The use of the equity method makes the presentation of actual operations through joint ventures more complex:

- The operational result excludes the portion of income and expenses of each co-participant. A number of groups would therefore be forced to present “economic” data to reflect their activity, as French construction groups do for their individual accounts in order to track the activities of joint ventures. The portion of profit or loss measured under the equity method is presented on a separate line in the profit and loss account. This presentation, resulting from legal constraints, is compensated by detailed information in the notes to the accounts, including a reconciliation between the economic revenue and the booked revenue.

- The balance sheet items are significantly changed. The equity method does not allow an easy assessment of the indebtedness of an entity or of the significance of intangible assets related to research and development.

The exposure draft aimed at removing the option provided by IAS 31 will certainly raise a lively debate. Participants in this debate will pay particular attention to the way in which the IASB might support that the equity method provides better information on joint ventures than proportionate consolidation, as the opposite position is taken in the standard in force (IAS 31.40).
Over the last few months, the adoption procedure for IFRS standards in Europe has been amended twice.

After confirming the EFRAG in its role, without changing its status as a “group of independent experts”, the European Commission created the SARG (Standards Advice Regulatory Group) in order to ensure the impartiality and objectivity of the EFRAG recommendations.

In addition, the new endorsement procedure for standards in Europe redefines the breakdown of powers between the European Commission, the European Parliament and the Economic and Financial Affairs Council (EcoFin). This provides the Parliament and the Council with a right of veto.

In order to fully understand the risks inherent to this new procedure, Doctr’in provides an update on how the system works, on the rights of each player and on the impact of those changes on the adoption of standards.

**Standards adoption: an eight-month process at the least from now on**

![Diagram showing the adoption process of IFRS standards in Europe.](image-url)
The major players and their role in the process

**EFRAG (European Financial Reporting Advisory Group)**
The EFRAG, which has been recognised by the European Commission in its independent technical role (IAS regulation), has two months from the date of publication of a standard or an interpretation by the IASB to provide an opinion on whether it is appropriate for Europe to adopt a text published by the IASB, depending on the technical quality of the relevant standard or interpretation.

**SARG (Standard Advisory Review Group)**
Created after the recognition of the EFRAG, the SARG aims to provide, on behalf of the ARC, an opinion on the objectivity and impartiality of EFRAG advices. The SARG has three weeks (four if the subject is highly technical) from the date of publication of the EFRAG opinion to reach its own conclusions. The seven members of the SARG were appointed in February 2007.

**ARC (Accounting Regulatory Committee)**
The ARC, whose members are representatives of each EU Member State (one for each Member) and one or several experts, gives an advice on the endorsement of the text, on the basis of the opinions issued by the EFRAG and the SARG.

**European Parliament and Economic and Financial Affairs Council (EcoFin)**
From now on, regardless of the ARC’s opinion, the European Parliament and the Economic and Financial Affairs Council both have a right of veto.

In the event that the ARC has ruled in its favour, the draft is submitted to the Economic and Financial Affairs Council and the European Parliament, which each have three months from the date the draft becomes available in the 22 official languages to exercise their right of veto. The draft will not be adopted if one or both reject it.

If, however, the ARC has ruled against the draft, it is submitted to the Council and the European Parliament. The Council has the prior right to take a decision within two months from the date the draft is available in the 22 languages:

- Either the Council rejects the draft, and the standard or interpretation is not adopted (the Parliament is then not involved in the decision).
- Or the Council adopts the draft (or abstains from a decision), and the question is submitted to the Parliament. The EP then has two months to exercise its right of veto (i.e. a majority vote) against the decision of the Council. If not, the draft is adopted.

Any draft regulation which is not adopted at the end of this process may be subject to a proposal for amendment, which is then submitted to the ARC.

**European Commission**
Finally, the European Commission decides to endorse the standard or the interpretation. The standard is published in the EU’s Official Journal.
What is changing

The procedure for the adoption of new IFRS standards at European level thus places the European Parliament and the Economic and Financial Affairs Council at the heart of the process, by granting them a right of veto.

This change has three fundamental consequences:

A lengthening procedure
In practice, the adoption of a standard or an interpretation will take at least eight months, as against the current average of six. This may give rise to severe stumbling blocks in the future, as the IASB only allows a period of twelve months between the date of publication of a standard and its introduction. What would become of the compliance of European regulation with IFRS, if a new compulsory standard could not be transposed into European regulations and implemented in time?

More uncertainty in the adoption of standards
The new process places the European Parliament and the Economic and Financial Affairs Council at the heart of the IFRS endorsement procedure, which, many observers think, could lead to the excessive politisation of the IFRS adoption in Europe.

The potential obstruction of the European Commission
The European Commission has lost control on the adoption process. The adoption of a standard is now controlled by the European Parliament and the Economic and Financial Affairs Council. Before, these two bodies had limited powers:

- the Parliament had a right to monitor the process to ensure that the European Commission did not exceed its powers;
- the Council was involved only if the Commission proposed to adopt a regulation against the recommendation of the ARC.
The adoption procedure for the IASB’s standards and interpretations in Europe remains complex, as explained in the previous focus study.

With the upcoming half year statements, Doctr’in provides you with an update on the standards and interpretations applicable to a company listed in Europe.

A reminder of the three principles for the applicability of the IASB’s standards and interpretations:

- The draft standards under development by the IASB cannot be implemented as they do not form part of the set of published standards. It is not, therefore, possible to implement the provisions of the exposure drafts related to the Business Combination – Phase II.

- The draft interpretations under development by the IFRIC can be taken into account provided that the two following conditions are met:
  - the draft is not in contradiction with the applicable IFRS standards;
  - the draft is not aimed at changing an existing interpretation subject to compulsory implementation.

- The standards published by the IASB and not yet adopted by the European Union can be applied if the European adoption process has been finalised before the date of the closing of accounts by the relevant body (i.e. often the board). The same applies to interpretations which change or replace the existing interpretations.

⇒ Update on the European Union’s adoption process for standards, amendments and interpretations published by the IASB and the IFRIC after March 31 2004.

### Status of standards

<table>
<thead>
<tr>
<th>Standard</th>
<th>Subject</th>
<th>Date of implementation according to the IASB</th>
<th>Adoption in Europe</th>
<th>Applicable on June 30 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 6</td>
<td>Exploration for and Evaluation of Mineral Resources</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>24 November 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IAS 19 Amendments</td>
<td>Employee benefits: option to recognise actuarial gains and losses directly in equity</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>24 November 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IAS 39 Amendments</td>
<td>Transition and initial recognition of financial assets and liabilities</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>26 October 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IAS 39 Amendments</td>
<td>Cash flow hedge accounting of forecast intragroup transactions</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>21 December 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IAS 39 Amendments</td>
<td>The fair value option</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>21 December 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>Standard</td>
<td>Subject</td>
<td>Date of implementation according to the IASB</td>
<td>Adoption in Europe</td>
<td>Applicable on June 30 2007</td>
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<td>----------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>IFRS 1</td>
<td>More information on the exemption of comparative information for companies anticipating the implementation of IFRS 6</td>
<td>N/A</td>
<td>27 January 2006</td>
<td>N/A</td>
</tr>
<tr>
<td>IFRS 6 Amendments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS 7</td>
<td>Financial instruments: Disclosures on the risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks. Replaces IAS 30 and changes IAS 32</td>
<td>1/01/2007 Earlier application encouraged</td>
<td>27 January 2006</td>
<td>Mandatory if full half year statements Authorized if summarised half year statements</td>
</tr>
<tr>
<td>IAS 1 Amendments</td>
<td>Information to provide to allow the users of financial statements to assess the objectives, policies and processes implemented by the entity for the management of equity</td>
<td>1/01/2007 Earlier application encouraged</td>
<td>27 January 2006</td>
<td>Mandatory for full half year statements Authorized for summarised half year statements</td>
</tr>
<tr>
<td>IFRS 4 Amendments</td>
<td>Financial guarantee contracts: recognition of the liabilities resulting from contracts in the balance sheet</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>27 January 2006</td>
<td>Mandatory</td>
</tr>
<tr>
<td>IAS 14</td>
<td>Extension of the concept of net investment in a foreign operation to the operations carried out in a different currency than the functional, presentation or destination currency</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>9 May 2006</td>
<td>Mandatory</td>
</tr>
<tr>
<td>IFRS 8</td>
<td>Operating segments: Implementation of the management approach. Replaces IAS 14</td>
<td>1/01/2009 Earlier application encouraged</td>
<td>Approved by the ARC in February 2007, but decision on adoption delayed to September 2007</td>
<td>No</td>
</tr>
<tr>
<td>IAS 23 Amendments</td>
<td>Borrowing costs</td>
<td>1/01/2009 Earlier application encouraged</td>
<td>Positive advice from EFRAG, May 2007</td>
<td>Authorised only if adoption is finalised before Board meeting for the half year closing of accounts’</td>
</tr>
</tbody>
</table>
### Status of interpretations

<table>
<thead>
<tr>
<th>Interpretation</th>
<th>Subject</th>
<th>Date of implementation according to the IASB</th>
<th>Adoption in Europe</th>
<th>Applicable on June 30 2007</th>
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</thead>
<tbody>
<tr>
<td>IFRIC 4</td>
<td>Determining whether an arrangement contains a lease</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>24 November 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IFRIC 5</td>
<td>Exclusion, from the scope of IAS 39, of the interests arising from funds set up to meet dismantling costs</td>
<td>1/01/2006 Earlier application encouraged</td>
<td>24 November 2005</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IFRIC 6</td>
<td>Event giving rise to provision for recycling electrical and electronic equipment</td>
<td>Years starting on 1/05/2006 Earlier application encouraged</td>
<td>27 January 2006</td>
<td>Compulsory</td>
</tr>
<tr>
<td>IFRIC 7</td>
<td>Applying the restatement approach under IAS 29 – hyperinflationary economies</td>
<td>Years starting on 1/03/2006 Earlier application encouraged</td>
<td>9 May 2006</td>
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</tr>
<tr>
<td>IFRIC 8</td>
<td>Scope of application of IFRS 2: inclusion of transactions for which the counterparty cannot be identified</td>
<td>Years starting on 1/05/2006 Earlier application encouraged</td>
<td>9 September 2006</td>
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<tr>
<td>IFRIC 9</td>
<td>Reassessment of embedded derivatives</td>
<td>Years starting on 1/06/2006 Earlier application encouraged</td>
<td>9 September 2006</td>
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<tr>
<td>IFRIC 10</td>
<td>Interim financial reporting and impairment</td>
<td>Years starting on 1/11/06 Earlier application encouraged</td>
<td>Approved by the ARC in February 2007</td>
<td>N/A for half year accounts Take into account the consequences for year-end</td>
</tr>
<tr>
<td>IFRIC 11</td>
<td>Group and treasury share transactions</td>
<td>Years starting on 1/03/07 Earlier application encouraged</td>
<td>Approved by the ARC in February 2007</td>
<td>Authorised (no contradiction with adopted standards)</td>
</tr>
<tr>
<td>IFRIC 12</td>
<td>Concessions</td>
<td>Years starting on 1/01/08 Earlier application encouraged</td>
<td>On hold</td>
<td>Authorised (no conflict with adopted standards. However, to be implemented carefully)</td>
</tr>
</tbody>
</table>

An entity using the IFRSs must disclose in the notes to the accounts the list of standards and interpretations published by the IASB and not yet implemented by the entity, because the date of compulsory introduction has not arrived yet. An assessment of the impact of implementation of those standards and interpretations by the entity must be included.

The ARC’s following meeting took place on 6 June 2007.
The impact of IFRS 7 and revised IAS 1 on IFRS financial information as at June 30 2007

Groups that present their consolidated accounts under IFRS must take into account the new compulsory standards for years beginning from January 1 2007 (IFRS 7 and revised IAS 1) in their half-year statements.

While these new provisions do not bring any fundamental change at the accounting level, they aim to strengthen communication on financial risks and the sensitivity of profit or loss and equity to those risks. IFRS 7 requires that companies give more qualitative and quantitative information on financial risks, using tools to measure sensitivity.

In addition, IAS 1 was revised to introduce information on objectives and equity management procedures, where the entity is subject to external constraints on minimum equity in particular.

Compulsory application of the new standards

A priori, the new standards on financial information are only compulsory for interim accounts for groups that publish a full interim report. Groups that publish a summarised interim report appear to be authorized to delay the application to the closing of the annual accounts.

IFRS 7 – Financial Instruments: Disclosures, what changes from IAS 30 and IAS 32

This standard replaces IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and IAS 32 in respect of financial information on financial instruments. The rest of IAS 32 (definition of financial instruments, debt/equity distinction) remains the same.

In practice, only a few groups have implemented this standard in advance, thus few examples of disclosures are available.

Recognition in the balance sheet and information on accounting principles and methods

As regards balance sheet presentation, IFRS 7 requires a distinction between financial instruments measured at cost or amortised cost and those measured at fair value, when the financial assets and liabilities are grouped in categories.
As regards the income statement and the statement of changes in equity, the net gains and losses on assets and liabilities measured at fair value through profit or loss must be mentioned specifically, with a distinction between trading instruments and those classified in this category on a voluntary basis. Net gains and losses arising from other categories of financial instruments must also be provided by category.

For accounting rules and methods, apart from the information already compulsory under IAS 32, additional information is required:

- Criteria used to define the assets classified as AFS (Available For Sale);
- Criteria used to determine impairment indicators;
- Specific information when a correction account is used (opening, increase and decrease, closing). Previously, corrections were made directly, limiting the tracking of movements.

**Information on hedging operations**

The information required depends on the hedging type:

- Fair value hedge: gains and losses arising from the hedging instrument and the hedged instrument attributable to the hedged risk;
- Cash flow hedge: ineffectiveness recognised through profit or loss;
- Net investment in a foreign operation hedge: ineffectiveness recognised through profit or loss.

**Information on financial risks**

IFRS 7 requires qualitative and quantitative information on the exposure to risks arising from financial instruments, including a minimum level of information on credit risk, liquidity risk and market risk. The risk measurement tools must be described.

As regards information on credit risk, one of the most important provisions for corporate companies is the disclosure of an ageing of past due but not impaired trade receivables.

For liquidity risk, the standard requires an analysis of financial liabilities on the basis of contractual maturity, as well as a description of risk management.

Finally, as regards market risk (interest rates, exchange rates, price risk), IFRS 7 requires a sensitivity analysis by type of market risk, showing the exposure of the profit or loss and equity to variations of the relevant market data. The methods of analysis and changes over the period must also be described.

The standard indicates that the Value at Risk (VaR) is a possible analysis tool. The VaR of a financial asset portfolio is the maximum possible loss over a given time-frame, excluding certain very improbable unfavourable events. In other words: “What is the maximum amount of loss that an entity may experience over a period of x days with a probability of y%?”. The VaR relies on three parameters:

- the distribution of losses and gains,
- the required level of confidence,
- the defined time-frame.

The use of mathematical models is necessary to define the probability of occurrence of future losses.
Revised IAS 1 – Equity information

IAS 1, revised in August 2005, requires disclosures on how the entity manages its capital.

It requires inter alia the following details:

- If the entity is subject to regulatory constraints in terms of equity (prudential ratios for banks and insurance, in particular), it must disclose compliance or non-compliance with those constraints. In the event of non-compliance, the consequences for the entity must be indicated;

- What the entity defines as equity for the management, as this notion may result from rules which differ from those of IAS 32 on the debt/equity distinction (including figures);

- The objectives and the policy implemented by the entity in terms of equity management (qualitative information):
  - Financial balance of operations,
  - Compliance with internal rules on debt levels,
  - Expected profitability of investors;

- The changes from the previous year in terms of amounts or objectives of the equity management policy.

Conclusion

While the new standards applicable in 2007 have no impact on the balance sheet and the income statement with the retrospective adjustments it would entail, they have a major impact on the organisation of financial information for the groups that have to collect information and introduce tools to process the data in order to comply with the standards.

In addition, this information must be certified by auditors, even if it is included in the management report rather than the notes to the accounts. This is an additional challenge for groups and their auditors (information from non-accounting systems, calculations resulting from complex models, etc.).

Isabelle Sapet presented the subject in a breakfast conference for IMA France on May 22 2007. You can find her presentation on the Mazars website portal or on the website www ima-france com, “Download” section.
For an issuer, compliance with the IFRS requires more than simply implementing the current standards and interpretations. The issuer also has to provide information about the impact of the texts already published by the IASB, whose effective date is in the future. The information disclosed is determined on a prospective basis. Aware that companies need time to get used to the new set of standards, the IASB has decided to delay the application of the new texts to 2009. By then, the information on their future implementation will have increased significantly. DOCTR’iin has focused on the information published by the Eurostoxx 50 companies in 2006.

Among the 50 companies on the index, six presented their accounts under US GAAPs. Three other groups had not yet published their 2006 annual accounts at the date of our survey. Our analysis has therefore focused on 41 groups. Of these, three do not provide any information on the new standards or interpretations (neither on the standards effective in 2006 such as the amendments to IAS 39, IFRIC 4… nor on the standards with possible earlier application).

_bold Compulsory texts for 2006_

The application of six new standards or amendments and two interpretations was compulsory for groups whose year end is December 31. Among these eight new texts, three potentially apply to a high proportion of the groups in the index: the amendment of IAS 19 on the recognition of actuarial differences, the interpretation IFRIC 4 - Determining whether an arrangement contains a lease, and the amendments to IAS 39.

The amendment to IAS 19 provides groups with a new option to recognise actuarial differences. These can be recognised directly in equity. Groups which use this option must present a statement of recognised income and expenses (SoRlE), which summarises all the income and expenses recognised in income statement and directly in equity. The analysis of the financial statements on the implementation of this amendment may be summarised as follows:
The majority of groups (47%) have not presented any information on the use of this new option in their financial statements. Only seven of the groups surveyed chose this new method for recognising actuarial differences. Two groups, however, had implemented the amendment in advance in 2005.

The interpretation IFRIC 4 makes it possible to identify whether a contract has the characteristics of a lease. In such cases, the lease contract has to be handled in line with IAS 17 (i.e. operating lease or finance lease). In practice, the information published by the Eurostoxx 50 companies may be summarised as follows:

- The implementation of IFRIC 4 has had an impact on two groups.
- 22 groups said that the interpretation had no impact,
- 17 groups do not mention the new interpretation in their financial statements.

In practice, the two groups which state that they are impacted by IFRIC 4 had already implemented it in advance for the presentation of their 2005 accounts.

The year 2006 also saw the compulsory application of several amendments to IAS 39 on the fair value option, the financial guarantees and the hedging of cash flows.

These amendments have no impact for the vast majority of companies in the index:

- Two banks said that they had already implemented the amendment on the fair value option,
- Only one group said that the financial guarantee amendment had had an impact on its financial statements, while explaining that this impact was not significant.

Texts allowing anticipated implementation in 2006

The list of texts whose anticipated implementation in 2006 was authorised includes those adopted by the European Union and several standards and interpretations which have not been adopted yet.

Texts adopted by the European Union, whose anticipated implementation in 2006 was authorised

These texts mainly concern interpretations on very specific issues, such as:

- IFRIC 8 on the scope of application of IFRS 2
- IFRIC 9 on the reassessment of embedded derivatives.

None of the groups on the panel have anticipated the implementation of a text finally adopted by the European Union. Most of the groups that provide information on these texts stated that their implementation will have no expected impact on financial statements.

Standards and interpretations not adopted by the European Union

These are:

- IFRS 8, which replaces IAS 14 on Operating segments, has not been adopted yet and cannot be implemented by European groups. In practice, no group has implemented this new text.
- The IFRIC 10 interpretation on depreciation recognised in interim accounts and IFRIC 11 on group share transactions, which the ARC recommended for adoption in February 2007.
- The IFRIC 12 interpretation on concessions, on which the ARC has not issued an opinion yet.
The positioning of Eurostoxx 50 companies on these three interpretations may be presented as follows (in number of groups):

The IFRIC 10 and IFRIC 11 interpretations have been implemented by only one group, which disclosed that these texts confirmed the principles followed over the previous years.

One group stated that it had adopted the IFRIC 12 interpretation as a guideline for the treatment of its concession contracts, on the basis that the text is not in contradiction with the current IFRS standards.

Among the groups which have not implemented these interpretations, 15 said that the implementation of IFRIC 10 will have no impact on their financial statements. As regards IFRIC 11 and 12 interpretations, we have identified eleven and six groups respectively that provided for this information.

**Conclusion**

The number of texts that the companies may implement in advance should rise significantly by 2009. Apart from the volume of these texts, several standards and interpretations may have significant impacts (Business Combination – Phase II project). The groups which did not provide for any information on the new texts in 2006 may well have to change their position in the future. Whatever the case, the information provided by these groups will have to increase in uniformity.