The IASB has planned to publish the revised IFRS 3 Business Combinations – Phase II standard this summer. In this issue, Doctr’in analyses the most recent options agreed upon by the Board. The IFRIC has also published a number of documents, including final interpretations and drafts submitted for proposals. We focus on two of these: Customer Loyalty Programmes (IFRIC 13) and Real Estate Sales (D 21).

Finally, the SEC is publishing its analysis of IFRS financial statements of foreign issuers. Here are the major comments to think about after the summer holidays.

Michel Barbet-Massin    Jean-Louis Lebrun
**Performance reporting**

The IASB continues to work on Phase B of the Performance Reporting project.

The discussions held by the IASB over the last few months relate to the methods for analysing the gains and losses by type of flow (cash flow, fair value variations, estimate variations, etc.).

As a first step, the staff had proposed to keep an income statement in the form of a list, and to provide a line-by-line reconciliation between the opening and closing balance sheet in the notes to the accounts, in order to present all the variations in assets, liabilities and equity by type of flow.

The Board subsequently rejected the idea of a systematic reconciliation and had therefore started new discussions on the subject.

During its June meeting, the IASB finally approved the publication by companies of a reconciliation schedule between the cash flow and the comprehensive income statements. This reconciliation therefore implies the presentation of the cash flow statement using the direct method.

The *Discussion Paper* for Phase B is expected in the final quarter of 2007.

**Leases**

In July 2006 the IASB announced a comprehensive review of IAS 17 - Leases.

This project aims to propose an accounting treatment for assets and liabilities arising from a lease contract, whatever the type of contract.

The Board remains cautious in its latest comments: the measurement of assets (right of use) and liabilities (financial liability) should not be put into question in this project.

The standards related to non-financial assets and liabilities should therefore guide the accounting recognition of those items in lease contracts. However, no decision has been made on the measurement of renewal or anticipated breach options....

**Accounting for joint ventures**

The June Board meeting launched work on the exposure draft aiming to abandon proportionate integration, in line with the project for short term convergence with US GAAP. The voting procedure is about to begin.

Publication of this document is expected in the third quarter of 2007.

**IFRS 8 adoption impact study**

Ahead of its endorsement of IFRS 8 - Segment Reporting (not expected before September 2007), the European Commission has decided to launch a public consultation with the publication of questionnaires to collect input from preparers and users of financial statements, investors etc.

Through this consultation, the European Commission aims to measure the impact of this standard in terms of cost/benefit and the usefulness of information provided.

Let us remind you that IFRS 8 will replace IAS 14 and will favour the management approach for the definition (and revenue recognition) of segments to be subject to specific disclosures.
Answers to the questionnaires were requested by June 29, in order to enable the Commission to give its opinion on the endorsement of IFRS 8.

Mazars has responded to this public consultation and supports the endorsement of IFRS 8 by the European Union.

**Income Tax**

Income taxes have been the first topic in the project for short term convergence with US GAAP. Launched in 2002, it is now close to completion: the voting procedure on the exposure draft on income taxes, expected this autumn, has already started.

However, a difference with the US GAAP will remain, as the FASB and the IASB have not managed to converge on the recognition of uncertain tax positions (tax positions which may be subject to dispute during a tax inspection).

Doctr’In will publish a Focus Study on this subject when the exposure draft is published.

**Conceptual framework**

The two Boards have carried out a joint analysis of the weaknesses identified in the current definitions of assets (IFRS and US GAAP conceptual framework).

They have prepared a common definition: an asset is a present economic resource to which an entity has a present right or other privileged access at the date of recognition.

Uncertainties remain on the ability of the new asset definition prepared by the two Boards to address the weaknesses that have been identified. Further work is therefore necessary.

**Equity instruments repurchasable at fair value**

The Board plans to extend the scope of the IAS 32 amendment allowing the classification of repurchasable equity instruments as equity.

The definition of the criteria for the application of the exception, those related to the contribution of the instrument to the entity’s performance in particular, lie at the heart of the finalising phase.
News in brief

Endorsement of IFRIC 10 and IFRIC 11

On June 1, 2007, the European Commission endorsed IFRIC 10 “Interim Financial Reporting and Impairment” and IFRIC 11 “Group and Treasury Share Transactions”.

For your record, IFRIC 10 states that impairment losses on goodwill and certain financial assets recognised in interim accounts must not be reversed in subsequent interim accounts, even if no impairment is considered necessary when preparing the annual financial statements. This interpretation is applicable from November 1, 2006.

IFRIC 11 sets out the provisions for application of IFRS 2 “Share Based Payments”. It indicates how to analyse the terms of a transaction in order to determine how a transaction where a company directly grants another group entity’s employees rights to its own equity instruments should be analysed and recognised by the employing entity.

IFRIC 11 is applicable to annual periods starting on March 1, 2008 at the latest.

An interpretation on employee benefits

On July 5, 2007, the IFRIC released IFRIC 14 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The interpretation provides general principles for the determination of the net asset value which may be recognised within a defined benefit scheme. This recognition is based on the availability of refunds or the possibility of reducing future contributions. In the case of refunds, for example, availability is ensured if the entity has an unconditional right to that refund.

As regards minimal contributions, a liability is recognised only when minimal contributions are not refunded to the entity.

The application of the interpretation is compulsory for annual periods starting on January 1, 2008.

Simplification measures on European directives for SMEs and micro entities

The European Commission has initiated work on the simplification of regulations in corporate law, accounting law and accounting controls in March 2007. The application of European rules is regarded as too expensive, for SMEs in particular, and this has a negative impact on the competitiveness of European companies.

On July 10, 2007, the European Commission released accounting simplification proposals, including:

- Exemption of micro entities from the application of accounting directives;
- Increasing the number of consecutive years in which thresholds can be exceeded from 2 years to 5 years for SMEs, after which they have to comply with accounting directives;
- Lesser requirements for companies whose financial statements are used by a limited number of external users;
- Withdrawal of compulsory accounting for deferred taxes for SMEs;
- A significant reduction in the financial information requirements for SMEs.

A definition of micro entities is proposed in the European Commission’s Communication, with the following thresholds:

- fewer than 10 employees;
- total balance sheet lower than € 500 000;
- turnover below € 1 000 000.

The Directive 2006/46/EC of June 14, 2006 sets out the thresholds applicable to SMEs. Small companies are those meeting at least two of the three following criteria:

- fewer than 50 employees;
- total balance sheet (gross assets) lower than € 4 400 000;
- turnover below € 8 800 000.
Medium companies are those meeting at least two of the three following criteria:

- fewer than 250 employees;
- total balance sheet (gross assets) lower than € 17 500 000;
- turnover below € 35 000 000.

Comments on these proposals are expected by mid-October 2007.

**EFRAG: Working party on joint-ventures**

The EFRAG has set up a working party on the impact of the potential withdrawal of the proportionate integration method in the financial statements.

The role of this working party is to help the TEG in answering the future IASB exposure draft on the accounting for joint-ventures.

The working party is also responsible for proposing what financial information will be required for a clear understanding of the operations carried out by the entities through their joint-ventures.

These proposals will then be submitted to the EFRAG to decide whether they will be mentioned in the comments on the future IASB draft.

The EFRAG is calling for applications to serve on this working group. Made of 10 members of different nationalities with specific experience in joint-ventures, the working party is open to accounting professionals and to members of entities directly concerned. It will be chaired by a member of the TEG.

The first meeting is expected to be held in September 2007.

**SEC proposal to eliminate reconciliation between IFRS and US GAAP**


The SEC proposal is based on the efforts towards convergence between IASB and US standards and on the quality of IFRS which, while different from US standards, may meet investors’ requirements.

At this stage, the SEC plans to provide foreign issuers with an option to use either IFRS or US GAAP for their financial statements. For the SEC, “IFRS” only means the full set of IFRS published in English by the Board of the IASB. For example, “European IFRS” would not be recognised and reconciliation with US GAAP would then remain compulsory. In addition, auditors will have to explicitly certify compliance with IFRS as published by the Board of the IASB.

The SEC proposal is mostly based on the reliability of the convergence process rather than on the similarities between the accounting treatments under IFRS and US standards. As a consequence, the SEC will need to make a number of regulatory amendments, illustrated by the 46 questions raised in the discussion paper published on July 2.

Among the potential proposals which may have practical consequences on European companies listed in the US, the SEC raises:

- the reduction of the publication deadline for 20-F forms, as a consequence of the withdrawal of compulsory reconciliation,
- the need for guarantee, before the elimination of reconciliations, that preparers and users of financial statements have sufficient skill in IFRS (which is closely monitored, see Focus Study on page 7),
- the gradual elimination of reconciliations.

In addition, it is quite possible that the IASB and the FASB will not converge on certain subjects. What would happen then?

Comments should be submitted by 24 September 2007.

Finally, in a release published in July 25, 2007, the SEC raised the possibility that US issuers could present their financial statements under IFRS. This proposal is subject to a “Concept release” seeking public comments. However, this consultation is only a brainstorming exercise and will not carry the force of the discussion paper published on July 2.
With the update of its publication schedule for future standards, exposure drafts and discussion papers, the IASB has confirmed the publication of the final standards resulting from the Business Combinations phase II project in the course of the third quarter 2007. We thus expect the imminent release of the revised IFRS 3 and IAS 27, which may significantly change the recognition of business combinations from 2009.

A joint project with the FASB

The project for the revision of the accounting treatment for business combinations has been jointly carried out by the FASB and the IASB, as part of the short term convergence project. This work resulted in the publication of almost identical exposure drafts by the IASB and the FASB in June 2005. The review of the comments submitted has also been carried out jointly, and it is only in the recent discussion period that the two Boards have taken different decisions, preventing a full convergence of the two sets of standards in this major area.

A scope widened

The Business Combinations phase II project was initially expected to complete the provisions of the current IFRS 3 on transactions which are currently not covered by the standards, including the recognition of business combinations under common control and the creation of joint-ventures. This has not been the case, and these two issues remain outside the scope of IFRS 3, despite the frequency of this type of transactions.

However, other types of transactions have been brought within the scope of IFRS 3:

- Combinations including mutual associations and cooperative entities,
- Contractual business combinations without any transaction on the equity of the acquired entity.

The key element will be the acquisition of one entity by another, whatever the provisions of the acquisition, and the existence or not of a transaction initiated by the “acquirer” on the equity of the “acquired” entity.

Significant changes on the recognition of business combinations

While certain key principles for the recognition of business combinations remain the same (determination of the acquisition date, identification of the acquirer, initial recognition of assets, liabilities and contingent liabilities of the purchased entity at fair value), the future standard is expected to introduce significant changes in the application of the acquisition method.
Recognition of the purchased entity at fair value

A number of those changes are the result of a conceptual evolution related to the recognition of business combinations: they may not be recognised at acquisition cost for the acquirer but instead at the fair value of the acquired entity.

The price recognised for the transaction between the acquirer and the seller is expected to be the fair value of the purchased portion at the date of the transaction. However, when the transaction does not relate to 100% of the entity’s share capital, the valuation will have to be carried out for all the share capital in order to recognise the combination.

Accounting of acquisition-related costs

As a direct consequence of this conceptual change, the acquisition costs directly related to the combination are not part of the fair value of the purchased entity. They therefore have to be recognised as expenses in the period in which they occur.

However, the accounting treatment for costs related to the issuance of equity instruments for the purpose of the acquisition payment (deduction from equity) or to the issuance of debt to finance the acquisition (deduction from the debt amount and recognition in the income statement through the effective interest rate) does not change.

Full goodwill method

Another consequence of the recognition of the purchased entity at full fair value at the date of acquisition is that the goodwill on minority interests is also recognised. This is known as the full goodwill method, which was subject to a wide debate when the exposure draft was published in June 2005.

In view of the number of complaints following the publication of the exposure draft, the IASB has decided to let this full goodwill method optional. Entities should thus be able to choose between accounting for minority interests as before or recognising the part of the goodwill that relates to minority interest.

Maintaining the previous accounting method for minority interests would be considered as an exemption to the acquisition at fair value principle, as only the acquired part would be measured at fair value.

The option proposed by the IASB represents a significant difference from the US standards. Indeed, the FASB is not expected to allow such an option.

Determination of the price paid

The new standard is expected to state that the price paid at the date of the combination is normally representative of the fair value of the acquired part of the entity. The starting point for the determination of the fair value of the acquired entity is thus the assessment of the price paid.

The revised IFRS 3 is expected to provide guidance on this assessment and bring changes to the existing principles.

Valuation of equity issued for the purpose of the acquisition payment

The current IFRS 3 states that the shares issued for the purpose of the acquisition payment must be measured at fair value at the date of exchange (i.e. at the date of settlement of the securities).

This date may not be the acquisition date, which is the date when the acquirer obtains control of the entity. The revised IFRS 3 should state that the shares issued will be valued at the acquisition date rather than at the date of exchange of the securities. This change allows a significant convergence with the US GAAP which are expected to endorse the same principle. Indeed, in the current US GAAP, the measurement of equity issuance is carried out at the acquisition date.
Recognition of interests already held

Interests already held in the entity are taken into account for the determination of the price paid for the acquisition. According to the general principle applied for the recognition of the business combination (fair value of the acquired entity), the interests already held by the acquirer must be re-assessed at fair value at the date of the acquisition. This re-assessment should be accounted for in the income statement for the period, which may lead to the recognition of a result on previously held shares, though no transaction occurred.

The implementation of this new method is expected to significantly simplify the accounting treatment of step acquisitions: it will no longer be necessary to recalculate the goodwill on each transaction carried out before the group controls the acquired entity.

Potential adjustments to the cost of a business combination

The revised standard is also expected to introduce significant changes in the recognition of adjustments to the cost of a business combination. These are currently included in the acquisition price from the date of initial acquisition when their payment is probable and when they can be assessed on a reliable basis. Any further amendment to the acquisition price is recognised as an adjustment to the price, with related changes in goodwill, whatever the date of the price amendment.

The revised standard is expected to introduce:

- The compulsory recognition of potential adjustment to the cost of the acquisition at fair value at the date of acquisition, without any criteria for the probability of the payment and even if it is not possible to measure it on a reliable basis,
- That any adjustment to the cost of an acquisition, beyond a twelve month-period from the acquisition date, be accounted for in the income statement for the period,
- The analysis of corrections to the cost of the acquisition within the twelve month-period from the acquisition date: if corrections result from an event which occurred after the acquisition, the correction will be accounted for in the income statement for the period.

Items to be excluded from the price paid

Finally, the revised standard is expected to provide additional guidance on the items to be excluded from the acquisition price. They include:

- all sums paid to the seller in order to close previous transactions between the acquirer and the target entity;
- all share-based payments to the benefit of employees of the target entity and related to services to be provided after the date of acquisition;
- all sums paid to the seller or the target entity as a compensation for expenses incurred in the course of the transaction.

Changes to IAS 27: recognition of variations in percentage of interest after the acquisition date

In addition to the above changes in the application of the acquisition method, the IASB is to publish a revised IAS 27 which does not bring many changes to the current IAS 27 but which provides additional guidance to the recognition of variations in percentage of interest after the acquisition.
Variation in percentage of interest without loss of control

The IASB has favoured the economic entity approach versus the parent entity approach in the Business Combinations phase II project. Under the principle endorsed by the IASB, any transaction carried out with a minority shareholder must be analysed in the same way as any other shareholder transaction. This means that additional purchases of interests should be analysed as a reimbursement to a shareholder, the impact of which is recognised directly in equity, without recognition of any additional goodwill. This recognition would apply whatever the option adopted by the entity to the recognition of minority interests (with or without goodwill).

In addition, reductions in percentage of interest would no longer be analysed as partial disposals, and would also have to be recognised directly in equity. It would then not be possible to recognise any “dilution result”.

Loss of control with remaining interest in the former subsidiary

The principle endorsed by the IASB in the case of a reduction in the percentage of interest in a subsidiary, resulting in the loss of control over the subsidiary, is consistent with the re-valuation of all interests held prior to the acquisition, with the gain or loss being accounted for in the income statement.

The loss of control of a subsidiary would thus imply, in addition to the de-recognition of the subsidiary’s assets and liabilities, the re-valuation of all interests retained after the loss of control at fair value, changes being accounted for in the income statement.

In this case too, entities will have to recognise a gain or loss related to securities even though they have not been part of a transaction.

Compulsory effective date and transitional provisions

The application of the revised IFRS 3 and IAS 27 is expected to be compulsory for annual periods starting on or after January 1, 2009 (which means application from January 1, 2008 for comparative accounts).

Anticipated application of the standards in 2008 is expected to be authorised, subject to the coordinated implementation of the two standards and to the endorsement of the two standards by the European Union in time to allow their use by December 31, 2008.

The transitional provisions provide for a prospective application of the two standards, preventing the re-treatment of former business combinations. Partial goodwill resulting from the application of the current IFRS 3 would not be subject to change, and would be allocated to equity in the case of additional acquisition of interest in the subsidiary as for full goodwill.
Focus Studies

Customer loyalty programmes: the IFRIC interpretation

The IASB has published IFRIC 13 on Customer Loyalty Programmes. Doctr’in provides an update on the major principles of this interpretation and on the changes as compared to IFRIC D20.

Companies will have several months to comply with the new text as IFRIC 13 will be compulsory only for annual periods beginning on or after July 1, 2008 (the 2009 annual period for companies that close their accounts on December 31). The IASB has delayed by six months the effective date initially established by the IFRIC in order to give companies more time to comply with the new provisions, especially as regards the updating of information systems.

In the case of a change in methodology related to this interpretation, the restatement to be carried out may prove to be a burden. Indeed, IFRIC 13 does not set out any specific transitional provisions and refers to the provisions for changes in accounting methods provided by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. A retrospective treatment will then have to be carried out, resulting in an adjustment in equity at the opening of accounts for the first comparative period provided, as well as a restatement of the income statement for each period provided as if the new accounting method had always been applied.

What did companies engaged in loyalty programmes do before IFRIC 13?

In the absence of an IFRS that specifically applies to customer loyalty programmes, French companies publishing IFRS-compliant financial statements have referred either to the French “avis 2004-E du Comité d’Urgence” or to D20 (in a few cases only), in application of the paragraph 10 of IAS 8 on the hierarchy of texts.

Two methods are currently applied:

- Some companies recognise part of the income from the initial sale on a straight-line basis over the validity period of the granted benefits, in order to reflect the timing, nature and value of the benefits granted (as authorised by “l’avis 2004-E du Comité d’Urgence” mentioned above) in line with IFRIC D20 and with IFRIC 13;
- Others account for a provision as benefits are granted, based on the cost of the granted benefit and the probability that clients will exercise their rights (the preferred method according to “l’avis 2004-E du Comité d’Urgence”, as companies recognising customer loyalty programmes for the first time must use this accounting treatment).

The first approach results in deferring the revenue and the related margin attributable to the granted benefit. However, the second approach recognises the liability related to the benefit granted to the client, this liability being measured at cost.

What changes have been brought about by IFRIC 13?
Summary of the interpretation

IFRIC 13 provides for a single accounting treatment for all loyalty programmes falling within the scope of the interpretation.

IFRIC 13 states that a company must defer the proportion of revenue corresponding to the benefit to be granted in the future, through the recognition of deferred income. The IFRIC has endorsed the method which regards the benefit granted within a loyalty programme as a separate component of the initial sale (in line with paragraph 13 of IAS 18 on revenue recognition).

The benefit granted must be assessed at fair value, i.e. at the potential sale price if that sale was carried out separately from the principal sale.

The interpretation has been supplemented by the IASB with several practical examples especially regarding the methods for the recognition of benefits which will never be redeemed by the customer. The IFRIC provides for two scenarios:

- Either the fair value of the benefit is directly measurable (for example, each loyalty point is worth a set value): in this case, the revenue to be deferred corresponds to the value of the total number of points granted and it will be accounted for in the income statement on the basis of the points redeemed during the period, based on the total estimated number of points which will eventually be redeemed;
- Or the individual fair value of each benefit is not directly measurable: in this case, the fair value of the benefit is estimated on an overall basis, based on fair value of the goods or services chosen by the client, taking into account a rate of non-redemption of the loyalty points. In contrast to the previous case, only the revenue related to the benefits which will be effectively redeemed by the clients is deferred.

What are the major changes from IFRIC D20?

IFRIC D20 provided for the measurement at fair value of the benefit on the basis of the relative fair value of each component of the sale.

The IFRIC took account of the large number of comments received, and the final interpretation provides for the recognition of the benefit on the basis of its own fair value, and no longer of its relative fair value. The amount to be recognised immediately as revenue resulting from the main sale is obtained from the difference between the consideration received and the fair value attributable to the deferred benefit.

In addition, the IFRIC has further developed the accounting consequences where the entity has transferred its obligation to provide the benefit to a third-party (that in turn supplies the award). D20 did not specifically address this issue and did not provide guidance on the recognition of the revenue generated in such a situation. IFRIC 13 now states that the entity must recognise the full revenue at the date of the initial sale, all its obligations towards its clients being fulfilled. It must simultaneously recognise costs corresponding to the sums paid to the third-party to which the obligation has been transferred.

The EFRAG is expected to provide its opinion on the adoption of this text by the European Union in September 2007 at the earliest.

As this interpretation does not contradict any existing interpretation and as it provides additional guidance to IAS 18 provisions on revenue recognition, we believe that IFRIC 13 may be implemented in advance, even before its endorsement by the European Union.
On July 2, 2007, the Securities and Exchange Commission (SEC) published comments submitted following the a posteriori review of 2005 issued 20-F by more than 100 foreign companies listed in the United States (called Foreign Private Issuers or FPI) which were publishing financial statements under IFRS for the first time (including a US GAAP reconciliation note).

The SEC published both its exchanges with the FPI (the review process being the same as for companies publishing financial statements under the US GAAP) and a summary of the major areas discussed, as well as general comments on the application of IFRS.

The SEC states that it has not yet assessed the consequences of the application of any specific standard of the whole IFRS, nor the quality of the financial statements under IFRS. In addition, it has not reviewed the level of compliance with the IASB set of standards or the consistency of application of the principles from one group to another.

The subjects listed by the SEC in its report are presented below.

**Declaration of compliance with IFRS**

The SEC observed that declarations of compliance with IFRS were not always very clear, as a vast majority of those declarations refer to a version of IFRS as endorsed in a specific jurisdiction. Most of the groups also state that these IFRS are those published by the IASB.

The SEC also noticed a level of diversity in the way auditors express their opinion on an audited entity’s level of compliance with IFRS. In most cases, they only refer to the version of the texts adopted in a specific jurisdiction.

The SEC expressed the need for consistency in the vocabulary used in IAS 1 and G instruction on 20-F forms. As a reminder, the IAS 1 standard states that an entity whose financial statements comply with IFRS “shall make an explicit and unreserved statement of such compliance in the notes”.

**Presentation of financial statements**

The SEC observed that, in some cases, companies from the same jurisdiction and from the same industrial sector have presented their financial statements in different formats.

As regards the presentation of the income statement, the SEC focused on making sure that the six sections required as a minimum by IAS 1 were present, and that the principle under which there is an option to provide additional subtotals (where relevant to an understanding of the entity’s financial performance) was being properly applied. The SEC asked several companies to:

- rename the subtotals to make their names more explicit;
- explain the accounting principles and methods they applied in order to establish the method used to aggregate the subtotals within the net result and justify which items they include in the operational result;
- provide information on the calculation of the additional performance per share indicators and on the reconciliation of those measures with the income statement. IAS 33 requires the presentation of a basic earning per share and a diluted earning per share.
The SEC states that those comments did not imply the exclusion of “non US GAAP measure” aggregates under US GAAP from the income statements provided.

As regards the presentation of the cash flow statement, the SEC has identified companies which do not properly apply IAS 7, for example by not properly describing cash equivalents.

The SEC has also observed that the accounting treatment of similar transactions may differ widely from one group to another. Not surprisingly, the subjects listed are those for which there was no existing rule that provided a single accounting treatment as at the date of the 2005 closing of IFRS accounts. For example, it includes business combinations between entities under joint control and the acquisition of minority interests. The SEC asked a number of companies to improve the description of the accounting treatments and to indicate the impact of the treatment adopted on the financial statements.

Again on the subject of the key accounting choices by company management, the SEC has required companies to provide clear references to the texts applied, in line with paragraph 10 of IAS 8. This paragraph allows the management to rely on its own opinion to develop and apply an accounting method when there is no applicable standard or interpretation for a given transaction. In practice, in application of paragraph 11 of IAS 8, most French companies refer either to Regulation no 99-02 on consolidated accounts or to the US GAAP, as those two accounting bases may be regarded as consistent with IFRS.

Hot topics

As emphasised by the AMF in its recommendations for the preparation of the 2006 accounts on segment reporting in particular, the SEC has reminded the FPI of the importance of not spreading information on a single subject across the consolidated financial statements or outside them (in the MD&A, for example).

In its publication of July 2, 2007, the SEC focuses on the major themes on which it has required additional information from FPI. It focuses in particular on:

- Income recognition: As required by the AMF for the preparation of the 2006 accounts, the SEC has expressed the need for preparers to go beyond the mere replication of the principles set in IAS 18 and adapt them to the specific situation of their company. The SEC also asked questions regarding the triggering event to account for revenue in the income statement.
- Intangible assets and goodwill: the SEC asked questions regarding the identification of intangible assets, in particular in the case of business combinations.
- The way impairment of assets has been identified and measured.
- Contingent liabilities, with their nature and impact on financial statements.
As announced in the March 2007 issue of DOCTR’in, the IFRIC has published its interpretation project on the provisions for the revenue recognition relating to real estate sales. Named D21 – Real Estate Sales, it clarifies whether the revenue from the sale of homes before construction is complete should be recognised on a step by step basis in line with IAS 11- Construction contracts, or at the date of settlement as for a traditional sale of goods as defined in IAS 18. DOCTR’in describes the major elements of this interpretation project.

**How should a construction contract be identified?**

The IFRIC proposes to recognise a real estate sale under the provisions of IAS 11 when the sale refers to the definition of a construction contract: “a contract specifically negotiated for the construction of an asset”.

In the case of a real estate sale, the IFRIC considers that the definition is met if the transaction is for the seller to provide construction services to the buyer’s specifications. The interpretation committee sets out the following features for defining these services:

- The buyer is able to specify the major structural elements of the design of the real estate project before construction begins and/or specify major structural changes once construction is in progress;
- The seller transfers to the buyer the control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Indications of such a transfer include:
  - the construction takes place on land that is owned by the buyer;
  - the buyer has a right to hire a different contractor during construction.

**How should a contract for the sale of goods be identified?**

The indicators proposed by the IFRIC to identify a sale of goods include:

- negotiations between the buyer and the seller primarily concerning the amount and timing of payments, with the buyer having only limited ability to specify the design of the real estate (i.e. to select a design from a range of options or specify minor variations);
- an agreement giving the buyer only a right to acquire the real estate at a later date.

The recognition of the revenue from a sale of goods implies that all the IAS 18 criteria are met, including the transfer of effective control over the property to the buyer and the transfer of the significant risks and rewards of ownership.
Proposals for discussion

Off plan sale: IAS 11 or IAS 18?
Off plan sale is a contract specific to a limited number of countries such as France and Belgium. The major characteristic of this specific kind of real estate sale is the transfer of the ownership of the asset to the buyer during construction. Under this transfer, the buyer may sell the property or use it as a guarantee before the construction is complete. However, it is relatively rare for a buyer (particularly an individual buyer) to alter the structure of a building under construction, or to decide to change the contractor while the work is in progress. Moreover, individual buyers often have a limited choice in terms of options or changes to the specification on offer.

The interpretation project does not propose any arbitrage procedure in the event that the criteria set out for construction contracts and the sale of goods are met simultaneously.

Construction contracts, sale of goods or construction services?
The IFRIC has built its interpretation project on a fundamental distinction between a construction contract and the sale of goods. The core project aims to define the construction contract as “a contract specifically negotiated for the construction of an asset to the specifications of the buyer”. Two issues may be raised at this stage:

- Is the participation of the buyer in the definition of the technical specifications a fundamental criterion for the definition of a construction contract under IAS 11? It seems that this provision refers to the notion of a construction contract as defined by the US GAAP …
- IAS 18 is applicable to the sale of goods and rendering of services. However, the IFRIC has not explored the “rendering of services” proposal under IAS 18. Is this proposal very different from the approach in IAS 11?

The French CNC has formed a working party in order to prepare national regulator’s response to this interpretation project. Let’s hope that those issues will be addressed by the working party and that it will result in a clear consensus. Comments may be submitted to the IFRIC until October 5, 2007.
Issues most frequently raised with the Technical support department

- Partial disposal of shares resulting in a loss of control while keeping a significant influence;
- Analysis of a debt contract within a LBO;
- Analysis of an outsourcing operation with the signature of a sub-contracting contract (within a business combination framework);
- Treatment of mergers of subsidiaries under exclusive control under IFRS;
- Treatment of compensation for the closing of a site to a supplier;
- Treatment of the attribution of stock options to managers with a commitment to buy back at a price dependent on the performance of the company;
- Classification under IFRS 5 – Assets Held for Sale – of an asset for which a sale agreement has been signed with a suspensory clause related to the release of a guarantee;
- Recognition of a reversed acquisition as part of the internal restructuring of a company;

- Analysis of the possibility of classifying the share of the profit or loss of associates and joint ventures accounted for using the equity method in the operational result;
- Recognition of a convertible bond issue including non-conversion premiums;
- Disposal of securities used as a guarantee for a loan granted by the seller to the buyer for the financing of an acquisition: what are the consequences in terms of de-recognition of financial assets?
- Taking into account the consequences of a change of tax status (option under the SIIC regime) for the recognition of deferred tax;
- Recognition of replacement of share buying option plans in a business combination.

Calendar of forthcoming 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>
</tr>
</tbody>
</table>

DOCTR’in is published by Mazars & Guérard. The purpose of this publication is to keep readers informed of accounting developments. DOCTR’in may under no conditions be taken, in whole or in part, to constitute an opinion given by Mazars & Guérard. While every care has been taken in the preparation of this publication, Mazars & Guérard takes no responsibility for any errors or omissions in the publication.

The editorial process for this issue was completed on August, 31 2007.