In this special year-end issue, we focus on the standards and interpretations applicable as at 31 December 2007. We also address the adoption of the IFRS 8 - Operating Segment by the European authorities, following a thorough review.

In this season of festive greetings, our wish is that DOCTR’in will be an effective guide during the New Year and will help you to address new issues as they arise. Thank you for your continued support.

Happy New Year!

Michel Barbet-Massin   Jean-Louis Lebrun

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**News**

**The IASB is seeking a trustee and a new member**

The IASB has called via its web site for candidates to fill one vacancy for an IASCF trustee and one for a member of the IASB. The IASCF term of office lasts 2 years (to 31 December 2009) and can be renewed once for a further 3 year period. The Board member’s term of office will end on 30 June 2011.

**IFRIC vacancies**

The IFRIC is also advertising two vacancies within its expansion programme.

**Plan to simplify the legal and accounting environment for corporates**

The European Parliament has recently published its draft report on the simplification of administrative tasks for corporates. This report states that:

- The draft standard for SMEs published by the IASB does not meet the objective of simplification,
- The exemption on drafting and publishing accounts for “micro-entities” is a step forward.
Will compulsory reconciliation with US GAAP be ended?

On November 15, the SEC unanimously decided to end the compulsory reconciliation with US GAAP standards for foreign issuers publishing their accounts under IFRS. This measure applies to all accounting years ending after November 15, 2007.

The news has been much welcomed in Europe, as it simplifies procedures and substantially reduces costs for a number of European companies. However, it should be noted that:

- The end of compulsory reconciliation applies only to companies publishing their accounts under IFRS as published by the IASB,
- Reconciliation with US GAAP remains compulsory if the principles used differ from IFRS as published by the IASB, whatever this difference may be,
- The SEC has accepted an exemption to this principle for a 2 year period, under which any reconciliation should be between IFRS applied and IFRS as published by the IASB and not with US GAAP.

In order to allow European companies to benefit fully from this measure, the European authorities should:

- eliminate the current carve-out on IAS 39 in the coming 24 months,
- avoid any failure or delay in the adoption of any new or amended standard.

Revenue Recognition

At the Board meeting in November, staff presented the reasons why and conditions under which the “revenue recognition” project had been launched.

One model, the fair value measurement on the basis of a “current exit price”, was also introduced.

Fair value measurement specifications

Work is about to begin on the review of the current standards requiring or allowing the “fair value” measurement of assets and liabilities. The objective is to clarify the assessment attribute (current entry price, current exit price and potentially another reference price) reflecting the Board’s intentions at the time the various standards were drafted.

The proposed objective is to avoid any new unanticipated change to current practices. These discussions should be monitored closely in order to ensure that the clarifications will not themselves lead to changes in measurement practices for companies.

Conceptual framework: Measurement

In October, the IASB Board approved the timetable for the “Fair value measurement” project which will lead to the publication of an exposure draft in the autumn of 2009. In November the Board approved the acceleration of the “Measurement” phase of the review of the conceptual framework. In both cases, the Board acted in response to requests expressed in Europe.
Conceptual framework: general definition of liabilities

After an initial definition of assets was agreed in October, the Board turned in December to initial staff suggestions regarding the definition of liabilities. At this stage, the link with the “Debt/Equity” draft is not certain. The approach taken by the FASB in this draft could consider liabilities as a default category, on the basis of a definition of equity.

Evaluation of provisions

During its review of IAS 37 – Provisions, the Board revealed that it lacked a consensus in the understanding of current IAS 37. The situation has not changed. However, the Board has decided to continue with the finalisation of the review of the standard on the basis of the exposure draft. As it requires the measurement of the relevant liabilities on the basis of either a transfer value or a repurchase value, the definitive standard will entail changes in current practice.

Debt/Equity

The FASB published its discussion paper on 30 November. This document should be published by the IASB at the end of the first quarter of 2008. The IASB has started to prepare its call for comments with an introductory session organised by the FASB on the model it has decided to promote, which is a very restrictive definition of equity.

Recognition of an insurance policy

The IASB Board has decided that determining the conditions for recognition of an insurance policy in the insured’s accounts does not require a discussion paper. The next step will therefore be an exposure draft.

Financial instruments puttable at fair value

Following the comments expressed during the round tables held in London on 12 November, the IASB Board concluded that the public was in agreement with the proposed amendments to IAS 32 and with the exceptions in the definition of a liability, as presented in the IAS 32 draft amendment published at the beginning of November. However, several aspects of the wording require revision. The final vote should take place in December 2007.

Business Combinations Project (Phase 2) – Delayed application of revised IFRS 3 and IAS 27

At its April 2007 meeting, the IASB Board decided that revised IFRS 3 and IAS 27 would be applicable to accounting years starting on 1 January 2009, with possible early application.

The IASB made such early application conditional on the simultaneous implementation of the two standards. In addition, it required the approval of the standards by the European Union within a timeframe compatible with their application as at 31 December 2008.

During its November meeting, the Board decided to postpone the implementation of the two standards to accounting years starting on 1 July 2009, in order to maintain a transitional period of 18 months between the date of publication and the date of implementation. This means application in the year 2010 for groups which close their accounts at the end of the calendar year.

Revised IFRS 3 and IAS 27 were published on 10 January 2008.
News in brief

**New projects on the agenda: issuance rights, business combinations under common control, management commentary etc.**

At its December meeting, the IASB Board decided to include in its agenda the definition of recognition conditions for greenhouse gas issuance rights, and to consider business combinations under common control, within a scope of application yet to be defined. The Board also decided to publish a description of best practices as regards management commentary. Finally, the Board reluctantly dropped its plan to develop a new standard for intangible assets. However, it urges any interested national regulators to take up its work in this area.

**Annual improvements to IFRSs**

In early October the IASB published its annual draft amendments to IFRSs, requesting users’ comments by 11 January 2008.

In order to limit the number of formal requests for comments and the workload for users of IFRSs, the IASB has introduced an updating procedure for minor changes in all the standards. The objective is to ensure the internal consistency of the set of standards and to integrate items that have been approved during the year by the IFRIC and the IASB. The 2007 draft amendment includes 41 changes to 22 standards.

In its current state, the draft has raised comments on the procedure used to choose the subjects considered as “minor”. Some changes have an impact that goes further than merely maintaining consistency across the standards and require further consideration, which may lead to the revision of the standards concerned.

For example, the amended definition of a derivative instrument under IAS 39 means that derivative instruments indexed on non-financial variables specific to one party to a contract must be brought within the scope of IAS 39. Such a change could have significant impact on the recognition and evaluation of contracts incorporating derivatives of this type (for example: loans indexed on the EBITDA etc.).

In addition, the draft amendments suggest specific approaches to the IFRS compliance declaration which appear to exceed the scope of the IASB alone and could be a matter for the government authorities requiring the adoption of IFRSs.

The IASB plans to publish the final version of the 2007 annual improvements during the second quarter of 2008.
Provisional rejection by the IFRIC of the request for interpretation of IAS 39.2g

The IFRIC was asked to provide an interpretation of paragraph 2g of IAS 39 on the exclusion of “contracts between a buyer and a seller in a business combination to purchase or sell an entity acquired at a later date” from the scope of IAS 39.

This exclusion from the scope of IAS 39, which was not mentioned in ED3, was added at the Board meeting of November 2003. However, the basis for conclusions does not provide any clarification on the subject.

It may be considered that this exclusion only applies to binding purchase or sale contracts for securities under which control is transferred during the period needed to finalise the business combination (i.e. a narrow interpretation). Others have adopted a wider interpretation under which any financial instrument purchased or issued whose exercise would result in a business combination subject to IFRS 3 (including options) is excluded from the scope of IAS 39.

The IFRIC proposes not to address this subject, on the grounds that any clarification would be more a guide to application than an interpretation, and because the IFRIC does not expect the point to lead to divergent practices.

However, the frequent discussions regarding this topic within firms, exchanges with the market regulators and the examples of existing divergent practices (with a frequent use of the broader interpretation) would seem to demonstrate that this subject does need to be addressed.

The rejection, which currently envisages a limited use of the exemption, would entail the application of IAS 39 to a number of financial instruments which are currently excluded from its scope.

The significant amounts at stake, and the lack of clarity of this paragraph, would argue for a transfer of the subject to the IASB rather than a refusal to provide an interpretation from the IFRIC.

European adoption of IFRS 8 – Operating Segments

The European authorities have finally adopted the new standard on Operating Segments, leading to a de facto acceptance of the “management approach”.

Following a number of criticisms of IFRS 8, the Commission launched a study of the impact of its implementation on companies. The results of this study and the approval of the EFRAG and the ARC finally persuaded the Parliament to issue a positive opinion on November 14, followed by the final adoption of the standard on November 21.

IFRS 8 will therefore be applicable to listed companies from 1 January 2009, when IAS 14 will be revoked. The early application of IFRS 8 is authorised.

However, when issuing its positive opinion on November 14, the European Parliament also:

- expressed reservations regarding the Commission’s analysis suggesting that IFRS 8 does not reduce the geographical disclosure requirements by comparison with IAS 14. The Parliament requires the Commission to report within 6 months on the result of discussions with the IASB;
- drew attention to the concept of the ‘chief operating decision maker’ which may fit the concept of an executive board with collective responsibility;
- required the Commission to provide a report on the presentation of geographical segments, segment gains and losses and the use of non-IFRS compliant evaluations by 2011 at the latest.

We will keep you updated on the responses to these requests in a future issue of Doctr’in.
CESR report on the implementation of IFRSs in Europe

On November 7, 2007, the CESR (Committee of European Securities Regulators) published a report including the main observations of European regulators on the adoption of IFRSs by around 7,000 listed companies in the European Union.

The report states that the transition to IFRS has been smooth overall, although it entailed major challenges for the accounting and financial world. The European regulators believe that the transition has contributed to improvements in the quality of financial reporting, thanks to increased transparency, the disclosures supplied in annex, and the improved comparability of undertakings.

The CESR report details the major difficulties in the implementation of IFRS identified by the regulators. These include:

- IFRS 3: identification of a buyer in a business combination;
- IAS 39: identification of the situations in which depreciation must be recognised;
- IFRS 5: evaluation, at a given closure date, of the obligation to consolidate a subsidiary in line with IAS 27 (in the case of an acquisition of an asset solely for future sale);
- IAS 1: the format of income statements is not standardised between companies; need to increase disclosures on management estimates and hypotheses; need to increase the personalisation of the key accounting principles and methods to reflect to the situation of the company;
- IAS 14: identification of the geographical zones and operating sectors without limiting the presentation to a single zone or sector when this does not reflect the real situation;
- IAS 36: description of the goodwill depreciation testing procedures;
- IFRS 2: omission of information compulsory under the standard.

The CESR report also indicates that there are some divergences between companies regarding specific situations not covered by IFRSs, particularly in the following areas:

- Business combinations under joint control: operations clearly excluded from the scope of IFRS 3;
- de facto control in line with IAS 27 (paragraph 13): despite the clarifications provided by the Board in October 2005, variations in practice still occur.

Finally, the report also points out several inconsistencies within the regulation, especially between IAS 27 and the 7th Directive. In this case, the question is whether an issuer must provide consolidated accounts when the parent company only holds stakes in non-significant subsidiaries. The ARC has recently issued its opinion on this subject.
Since the first half of 2007, the CESR has been developing a database listing the technical analyses provided by the European market supervision bodies on IFRS matters. In December 2007, the CESR published a new extract from this database, which we summarise below.

The decisions taken in December 2007 mainly concern the following topics:

- **Amortisation of an intangible asset of predefined duration integrated in goodwill.** The analysis confirms that an intangible asset which is not recognised separately from goodwill cannot be amortised.

- **Recognition of excise tax on fuel.** The regulators have stated that this type of tax is an integral part of the cost of fuel inventories.

- **Recognition of badwill.** Badwill must be incorporated into the result of the period in which the business combination takes place.

- **Deferred tax asset.** Deficits carried forward may lead to the recognition of deferred tax assets provided that the company will generate taxable profits in the foreseeable future.

- **Use of the fair value option.** The fair value option can be applied to financial liabilities related to investment buildings measured at fair value. In this case, the fair value option is used to eliminate an accounting mismatch.

- **Segment information.** The breakdown of information into primary and secondary sectors must be consistent with the breakdown used for internal company disclosures on operations, risks, markets and clients.

- **Intangible assets amortisation method.** The amortisation of an intangible asset (for example a mobile telephony licence) in accordance with the profile of the profits expected from its operation is not consistent with IAS 38.

- **Change in the accounting method for employee benefits.** The limitation of risks related to a defined benefit plan does not allow its re-classification as a defined contribution plan.

- **Identification of the buyer in an acquisition.** In some specific cases, the identification of a buyer in line with the provisions of IFRS 3 may require several transactions to be considered as a single arrangement.

- **Real estate development.** IAS 11 – Construction contracts does not apply in several cases identified by the regulators because it requires the negotiation of a specific contract. The CESR database clarifies that IAS 18 – Revenue should be applied. Please note that there is an IFRIC draft interpretation on this subject.
The IASB has recently published new standards and interpretations. A clear distinction must be made between the IASB’s own publication process and the European adoption process, which is exclusively a matter for the European Union.

As year end approaches Doctr’in helps you find your way through the difficult field of “which standard for whom and when”.

The following principles govern the application of the IASB’s standards and interpretations:

- IASB drafts cannot be implemented as they do not belong to the set of published standards. It is therefore possible to implement the provisions of the exposure drafts relating to joint ventures (ED 9).
- Draft IFRIC interpretations can be taken into account if the two following conditions are met:
  - the draft does not conflict with the applicable IFRSs;
  - the draft is not aimed at amending an interpretation whose application is currently mandatory.
- The standards published by the IASB but not yet adopted by the European Union may be implemented if the European adoption process is completed before the date of the closing of accounts by the relevant body (most often, the Board of Directors). The same applies to interpretations that amend or replace existing interpretations.

Please note that the notes to the accounts of an entity applying IFRSs must list the standards and interpretations published by the IASB that are not subject to early application by the entity. In addition to this list, the entity must provide an estimate of the impact of the implementation of those standards and 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 the standards**

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<td>Standard</td>
<td>Subject</td>
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### Status of the Interpretations

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Frequently asked questions

- Treatment of "carried interest" in the real estate sector;
- Accounting treatment of corporate foundations in individual and consolidated accounts under IFRS;
- Recognition of a convertible bond;
- Does a floating rate/fixed rate swap backed by a floating rate debt fall within the scope of hedge accounting?
- Identification of the event giving rise to the recognition of a loss in value on securities denominated in a foreign currency;
- Recognition of the purchase of a portfolio of litigated debts;
- Business combinations under joint control: which standard to apply given the lack of guidance of IFRS 3, and until when?
- Recognition of a brand licensing contract;
- Level of recognition of a special purpose entity in the group or sub-group accounts;
- Accounting treatment of guarantee funds;
- Rights to use a brand;
- Changes in the recognition method for the repurchase of minority interests;
- Accounting treatments for put options;
- Business combinations with forward purchase provisions: which interest rate to choose?
- Consequences of a change in controlling interest after a business combination;
- Share based payment of a stock purchase and sale plan by employees;
- Treatment of a change in the valuation of the deferred tax assets recognised at the first consolidation of a company subject to the equity method;
- Treatment of the tax consequences related to treasury shares;
- Treatment of a partial disposal of securities from a controlled entity including a commitment to repurchase the securities.

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

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