

Beyond the GAAP

No 27 October 2009

Editorial

October was a particularly busy month for the IASB: five days of 'normal' meetings, three days of joint meetings with the FASB, three days of meetings on the financial instruments project: a total of eleven days of meetings... a record! All this has generated a good deal of news, in particular regarding the project to review IAS 39. Beyond the GAAP here presents all the important decisions made, some of which have immediate consequences for the 2009 reporting period.

Enjoy your reading!

Michel Barbet-Massin

Jean-Louis Lebrun

Contents

Highlights

IFRS News

page 2

A Closer Look

IFRS 9 or a first step into IAS 39's replacement

page 4

Draft standard on fair value measurement

page 9

Improvements to IFRSs, 2009 project

page 13

Events and FAQs

page 16

Editors-in-Chief:

Michel Barbet-Massin, Jean-Louis Lebrun

Columnists:

Françoise Flores, Edouard Fossat, Vincent Guillard, Julien Herveau, Carole Masson, Sandrine Nectoux, Didier Rimbaud, Isabelle Sapet and Arnaud Verchère

Contact us:

Mazars
Exaltis, 61, rue Henri Régnault
92 075 – La Défense – France
Tel. : 01 49 97 60 00

News

Creation of an Expert Advisory Panel

On 22 October 2009, the Board announced that it was looking for candidates to form an Expert Advisory Panel charged of advising the Board on the practical problems of applying the 'expected cash flow' approach for the impairment of financial instruments.

The work of this expert group should inform the Board's deliberations on Phase 2 of the project to revise IAS 39 - Financial instruments, regarding impairment.

Classification of Rights Issues amendment

On 8 October 2009, the IASB published an amendment to IAS 32 entitled Classification of Rights Issues. This amendment deals with rights issues in a currency other than the functional currency of the issuer. In the past, these rights issues were treated as derivative liabilities. In future, and under certain quite restrictive conditions, they will be classified in equity, regardless of the currency in which the exercise price is denominated.

This amendment, which is expected to be endorsed in Europe before the end of the year, is applicable to financial years from 1 February 2010. Early application is permitted.

➤ The news is still dominated by the revision of IAS 39 - Financial instruments

Work on the finalisation of provisions for classification and measurement was carried on throughout October, and was completed at the normal monthly meeting. On 2 November 2009, the IASB issued the near-final draft of the standard. Beyond the GAAP sets out the essential of these decisions in a special study (page 4).

➤ A new request for comments before the publication of amendments to IAS 37 - Provisions

In July, after long months of discussion, the Board approved the application guidance for the measurement of provisions. This guidance will amend current practice, as they include taking account of a margin, which a third party would charge in order to assume the risk, in all cases. This guidance will accordingly be the subject of a new exposure draft to be published in December, while a draft of the future standard will be placed on the IASB website during January.

The IASB intends to avoid re-opening the debate on all the other decisions taken during the course of this revision, including the recognition of any liability, regardless of the probability that this liability will materialise in an outflow or the transfer of an asset.

During the joint meeting, the FASB expressed great reservations about this development in IAS 37 by the IASB.

➤ Net income and comprehensive income joined in a single statement

The IASB and FASB have unanimously decided to prohibit the presentation of net income and comprehensive income in separate statements.

An exposure draft should shortly be issued proposing a limited amendment to IAS 1 – Presentation of financial statements, deleting the option of presentation retained during the revision of this same standard published in September 2007.

➤ The definition of a discontinued operation in IFRS 5 may not be amended after all

After analysis of comments received on the exposure draft changing the definition of discontinued operations in IFRS 5, the IASB had decided to keep, as the basis for presenting discontinued operations in the statement of comprehensive income, the reportable segment presented in the notes (and no longer the operating segment defined in IFRS 8 as proposed in the exposure draft).

After joint discussions with the FASB, the IASB finally opted to leave the definition of discontinued operations in IFRS 5 unchanged. As part of the convergence project, the FASB will shortly study whether it would be appropriate to amend the US GAAP to converge with IFRS 5. The definition of a discontinued activity in the US GAAP is not currently similar to that used in IFRS 5.

Additionally, the two Boards will work together in order to bring consistency to the notes on assets held for sale.

➤ IASB and FASB restate their desire for convergence

The joint meeting of the two Boards was an opportunity to restate their desire for convergence in a number of projects:

- consolidation,
- financial instruments – including derecognition,
- insurance contracts,
- presentation of financial statements,
- fair value measurement specifications etc.

This intention may push back the finalisation of certain projects by some months, without compromising the June 2011 objective, so that joint deliberations can take place.

These joint meetings, which were hitherto held twice a year, will in future be held monthly. The IASB work plan will be revised to reflect the decisions taken in October.

➤ Presentation of financial statements

In October the IASB and the FASB jointly took some important decisions in preparation for the exposure draft regarding the way financial statements should be presented in future.

The line-by-line schedule that reconciles cash flows to comprehensive income has been abandoned and replaced by an analysis of changes in the main balance sheet items during the financial year (cash flows, accruals not from remeasurements, valuation adjustments, and other changes).

The statement of cash flows should be presented using the direct method, while the reconciliation between the operating result and operating cash flows should be covered in the notes.

Finally, demonstrating the impact of revaluations within the gains and losses on the statement of comprehensive income has returned to the agenda. The method of presenting of these revaluation impacts (in the notes, or presentation of profit and loss accounts in the form of a matrix) has not yet been decided. The two Boards have identified the necessity of reaching an agreement about what these "revaluation differences" should include.

➤ Shaping the conditions of recognition of revenue for construction contracts

The decisions taken during October should have a structuring impact on the recognition of revenue envisaged by the IASB and the FASB, in particular as regards construction contracts.

To facilitate the application of the future standard, the IASB has decided to base the allocation of the contract sale price on the segmentation of contracts, and no longer on the basis of the most detailed level of each deliverable.

The segmentation adopted has been defined on the basis of the concept of goods or services 'sold separately'.

The different methods of recognising revenue by the

percentage of completion method as currently applied are maintained for the recognition of revenue within a segment.

These provisions, in addition to the indicators for transfer of control defined in September (see Beyond the GAAP of September 2009), should make it possible to analyse the scope and the method of application of revenue as work progresses.

➤ IAS 19 provisions on discount rates to remain unchanged

On 20 August 2009 the IASB published an exposure draft proposing to amend IAS 19 provisions on the discount rates to be used when measuring employee benefits in an illiquid market in high-quality corporate bonds (see Beyond the GAAP September 2009). The amendment was to have applied as from the financial years ending at 31 December 2009.

The proposals, generally well-received by the public in developed countries, were overwhelmingly rejected in emerging countries. Assessing a hypothetical yield was considered at once difficult, and unlikely to contribute to the stated aim of improving comparability.

In consequence, the IASB eventually decided not to finalise this project. The existing provisions of IAS 19 therefore remain applicable.

Thus in the absence of an active market in high-quality corporate bonds, an entity should continue to use state bond yields when discounting post-employment obligations.

IFRS 9 or a first step into IAS 39's replacement

The IASB has issued on 2 November 2009 on its website the near-final draft of the 'Classification and measurement' amendment which will be Phase 1 of the replacement of IAS 39. The new standard on financial instruments now has its number: it will be IFRS 9!

Beyond the GAAP here offers an initial outline of the main principles of this amendment. We shall return in more detail to the scope and substance of this amendment in our next issue.

⇒ Object and scope of the amendment: the first surprise

We have long been familiar with the purpose of this first amendment: the classification and measurement of financial instruments.

However, the recent IASB decision to limit the scope to financial assets is new. The IASB has explained this decision as being due to its intention to converge with the position of the US standard setter. It is also probable that the Board would like to have more time for deliberations before ruling on the subject of taking account of the own credit risk component in the measurement of financial liabilities at fair value.

In practice, this therefore means that an entity which opts for early application of this amendment (see below) will only apply it to its financial assets. The existing provisions of IAS 39 will still apply to financial liabilities (retention inter alia of the provisions on embedded derivatives). The positioning of derivatives between these two texts remains to be determined.

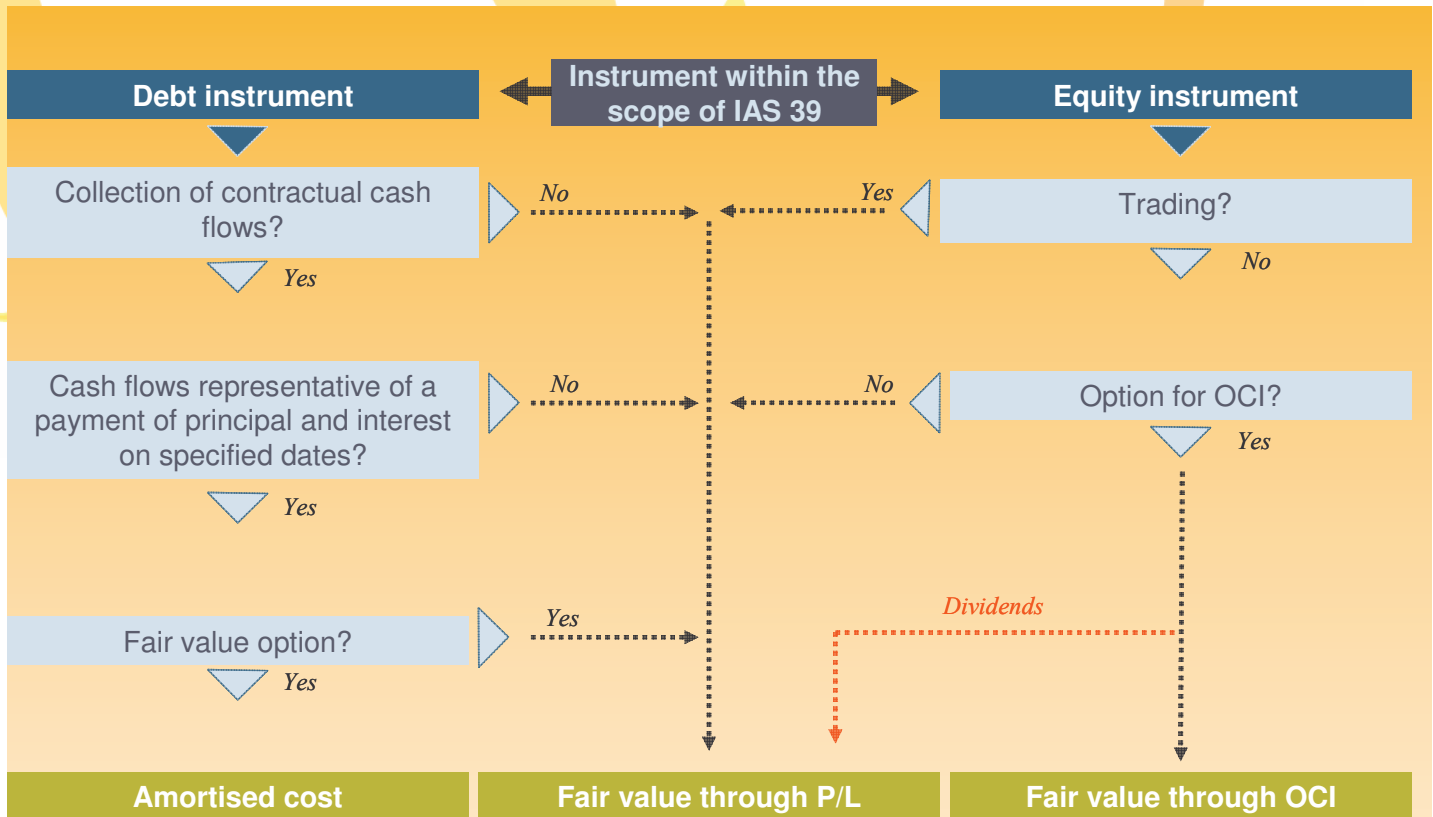
⇒ Retention of a mixed measurement method

The final version of the amendment retains a mixed measurement model based on two measurement categories:

- Fair value,
- Amortised cost, a category only available to debt instruments under certain conditions.

Derivatives and equity instruments (shares) will therefore be measured at fair value. The elimination of the exception which previously allowed measurement at cost for shares for which fair value cannot be reliably determined has been confirmed.

The following decision tree presents an overview of the principles of IFRS 9. We will go after that in greater details.



➤ A choice of two methods of presentation for the performance of equity instruments

By default, the impact of changes in the value of equity instruments will be recognised in profit or loss. However, instrument by instrument, an entity may elect to present performance in equity (*Other Comprehensive Income*). However, this option will not be available for those investments that are held for trading, for which changes in fair value must be recognised in profit or loss.

If this option is chosen, changes in fair value recognised in equity will not be recycled in profit or loss. The income generated by the instrument will remain irrevocably in equity (OCI), even in the event of disposal, except for dividends.

The Board has thus avoided confronting the complex debate on the impairment of equity instruments. Insofar as all performance (latent and realised) is recognised in fair value on a single line in the statement of comprehensive income (in profit or loss or in OCI), the removal of the recycling mechanism eliminates any impairment requirements.

However, as a change to the ED proposal, the Board has decided to require recognition of dividends received on equity instruments in profit or loss. The Board has decided to distinguish:

- the income received from the instrument (latent or realised loss or gain) which may optionally be recognised in equity;
- from the income received on the instrument (dividend) which must be recognised in profit or loss, regardless of the performance presentation method chosen for this instrument.

➤ Some debt instruments measured at amortised cost, but the rest measured at fair value

For debt instruments, three conditions will have to be fulfilled in order to classify the instrument in the amortised cost category. If any one of these conditions is not met, the instrument as a whole will be classified in the fair value category with recognition of changes in value in profit or loss. The elimination of the embedded derivative concept has thus been confirmed. The analysis will therefore be carried out on the contract in its entirety.

Condition 1: The asset is held under a business model which has the aim of collecting the contractual cash flows of the instrument. This condition should not lead to a prohibition on disposal before maturity (e.g. management of insurance portfolios on the basis of duration), but it clearly excludes management on a '*held for trading*' basis. The analysis of this condition will not be conducted instrument by instrument but at a higher level of aggregation, at portfolio level at least.

Condition 2: The financial asset provides a contractual right to receive cash flows at specified dates that are solely payments of principal and interest on the principal outstanding. This condition, based on the characteristics of the instrument, should mean fair value categorisation for instruments with a leverage effect (derivatives) and those whose yield does not correspond to either time value (interest) or to a credit risk associated with the principal amounts employed for a fixed time period (e.g. the indexation of interest on an entity's performance indicator).

Condition 3: The entity elects not to use the fair value options for this instrument. Remember that this option is open to entities wishing to reduce an accounting mismatch resulting from a different measurement of two instruments whose economic effects should offset each other.

Contrary to the proposal in the exposure draft, a debt instrument acquired on the secondary market at a discount reflecting an existing credit risk will not necessarily be classified in the fair value category. The amendment adopts a 'look-through' approach to instruments carrying a concentration of credit risk (as a result of franchising mechanisms). Thus a part of the fund purchased would only meet the second condition insofar as its assets taken as a whole also fulfilled this condition. If the entity is unable to apply this 'look-through' approach, condition 2 is not fulfilled for the purposes of this amendment. The instrument as a whole will then be classified in the fair value category.

➤ Reclassification: prohibitions and an obligation

In terms of reclassification, the general principle is one of prohibition. In most cases the entity will not be permitted to reclassify items between the categories.

An exception is the case of debt instruments where reclassification between fair value and amortised cost will be mandatory in the event of a change of business model (i.e. when the response to condition 1 is changed). However, the Board seems to think that such events will be inherently very infrequent.

➤ Mandatory application put back

Following the decisions taken on the 'Impairment' exposure draft (Phase 2 of the revision of IAS 39), the date of first application will be delayed until financial years as of 1 January 2013. Early application of this amendment will be permitted.

The rules for transition, which is retrospective in principle, will be as follows:

- the date of initial application may be any date, at the choice of the entity, between issue of the amendment and 31 December 2010. Thereafter, an entity may determine the date of initial application at the beginning of the reporting period only;
- the choice of options and other analyses (business models etc.) should be conducted at the date of initial application with retrospective effect;
- as an exception, entities deciding to apply this amendment before 1 January 2012 will not be required to present comparative years. In this instance the impact of changes will be observed in equity at the start of the current reporting period.

➤ Interaction with the other project phases

The IASB has indicated:

- that it will be possible to apply a phase of the project early without early adoption of the subsequently published phases;
- that in the event of early adoption of a given phase, all the preceding phases should also be the subject of early application.

On the basis of this principle, and assuming that phase 2 and then phase 3 were to be published during 2010, an entity could therefore choose between the following alternatives:

	IAS 39 (phases not early applied)	Early application permitted		
		Phase 1 Classification & Measurement of Financial Assets	Phase 2 Impairment	Phase 3 Hedging
Combination 1	X			
Combination 2	X	X		
Combination 3	X	X	X	
Combination 4		X	X	X

This table suggests that it would be unreasonable to expect that comparability could be ensured before 1 January 2013, particularly as for reasons of simplification the table does not address:

- the amendment which will tackle the treatment of financial liabilities;
- the derecognition project;
- changes which the Board might make to all these texts before their mandatory application date with a view to convergence with the FASB;
- last but not least, the European Union endorsement process which might cause European entities to observe different application dates from those envisaged by the IASB.

➤ An appointment with Beyond the GAAP!

As of next month, Beyond the GAAP will provide a first indication of the expected implementation issues and the anticipated date of implementation in Europe.

Main changes compared to the provisions of the exposure draft:

- Exclusion of financial debts from the scope of the analysis
- Recognition of dividends on equity instruments in profit and loss even in the event of opting for presentation in equity
- Elimination of the provisions relating to debt instruments acquired at a discount reflecting an incurred credit loss
- Partial abandonment of provisions relating to credit risk concentrations (tranching) in favour of a 'look through' approach.
- Mandatory reclassification between the fair value and amortised cost categories in the rare case of a change in business model.
- Change in the order and description of the eligibility conditions for the amortised cost category
- Transitional methods
- Date of mandatory initial application put back to 1 January 2013

Draft standard on fair value measurement

In May the IASB published a draft standard on fair value measurement. The aim is to provide a single definition of fair value for all IFRSs, and to bring together in a single standard the principles of fair value measurement and the application guidance for all cases in which fair value is used in the standards. The IASB hopes thus to clarify the definition of fair value and to harmonise the measurement methods.

This project is part of the programme for the convergence of the IFRS and the US GAAP, which is why the IASB proposals are broadly based on the FASB rules on fair value measurement published recently (SFAS 157).

The new standard does not intend to expand the scope of the principle of fair value beyond what is required in the existing IFRSs, nor to change the conditions under which fair value is currently used.

The future standard would apply to all the standards which make reference to fair value either as a mandatory or optional measurement rule, or for disclosures in the notes. However, the draft proposes to exclude from its scope paragraph 49 of IAS 39, under which the fair value of a financial liability with a demand feature (e.g. a demand deposit) cannot be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. These provisions will therefore be retained in IAS 39. Further, IFRS 2 is likely to be amended, deleting the term 'fair value' and replacing it with a word referring to different measurement principles.

The IASB also hopes to enhance disclosures about fair value to enable users of financial statements to assess measurement methods used and to inform them about the reliability of the inputs used to derive those fair values.

The definitive version of this standard should be published during the second half of 2010 for prospective application from 1 January 2012.

➤ The main proposals of the exposure draft on fair value measurement

A new definition of fair value

The exposure draft defines fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

The new definition thus establishes the principle of a fair value corresponding to an exit price.

In the case of an asset, an entity must measure it as would a well-informed market seller; to measure a liability, the entity must put itself in the place of an acquirer. The price corresponds to the price which would be received if the transaction to sell the asset or transfer the liability took place in the most advantageous market to which the entity has access at the measurement date.

In the absence of an actual transaction at the measurement date, fair value measurements should be based on a *hypothetical transaction* realised by a *market participant in the most advantageous market* for the asset or liability.

Establishing a fair value hierarchy

The exposure draft establishes a fair value hierarchy that prioritises into three levels depending on the use or otherwise of a valuation model and the inputs to valuation models used.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are fair values based on a valuation model using data directly observable in a (level 1) market or that can be derived from observed prices;
- Level 3 corresponds to fair values determined through a valuation model which uses inputs that are not based on observable market data.

Disclosures

The draft standard introduces more disclosures in the notes on all the assets and liabilities measured at fair value.

The effect on profit or loss or other comprehensive income for the period of components measured on the basis of a model using significant unobservable inputs (level 3) should be presented in the notes.

➤ First lessons from the comment letters

To date the IASB has received 156 comment letters in response to its exposure draft. The first trends are as follows.

The idea of a standard intended to reduce the complexity of fair value measurement and standardise its application has been generally well received, in particular since this contributes to the objective of convergence of IFRSs and US GAAP. Nevertheless, the draft has received numerous criticisms, related to:

- the difficulty of answering the question of 'how' to measure at fair value without tackling the question of 'when' to use fair value measurement. This remark is generally akin to the idea that fair value measurement should be closely linked to the economic model of the measuring entity;
- the use of fair value for non-financial assets and debts;
- the concept of exit prices, considered particularly inappropriate for assets which the entity does not intend to sell; for example, assets intended for use in the entity's ongoing activities;
- the inappropriate nature of exit prices for assets measured at fair value at first recognition and later recognised at amortised cost. This point highlights the difference that may exist between an entry and an exit price, in particular when they refer to two different markets, as may be the case for bank loans originating in a primary market and sold in a secondary market;
- the transfer price, i.e. the price that a third party would pay to acquire the liability, as a reference for the fair value of a liability. This transfer price would take into account the risk of non-performance associated with the liability, i.e. the reasons which would prevent the fulfilment of the obligation, including the credit risk. The measurement of a liability at fair value systematically introduces volatility due to changes in credit risk. Further, there are few cases in which the transfer price of a liability are observable in a market. Several commentators have criticised this definition, preferring the concept of repayment, being the amount required to extinguish the obligation, which seems to reflect more closely the fair value of a liability in the absence of any intention of disposal.

The exposure draft has also been criticised for failing to take up the illustrative examples of fair value measurement in an inactive market, developed in the Expert Advisory Panel's report.

➤ Points for further discussion

Following the comment letters received, the IASB proposes to re-open discussion of certain topics which were criticised.

The fair value measurement of debts

This subject was discussed at length in the Discussion paper which preceded the draft, *Credit Risk in Liability Measurement*. How to take account of credit risk changes in remeasurement subsequent to initial recognition is very controversial.

For example, the recognition of a gain in the event of deterioration in the credit quality of the issuer is counter-intuitive.

The reference to the most advantageous market

The exposure draft assumes that the principal market is equivalent by default to the most advantageous market because it maximises the gain from the transaction. This premise contradicts an approach which is based on the entity's economic model, and disregards certain restrictions in market access, the feasibility of the transaction because of physical and legal constraints.

The measurement of unlisted equity instruments

The exposure draft on the classification of financial instruments proposes to eliminate the exception which consists of recognising at cost equity instruments which have no quoted price in an active market, and for which fair value cannot be reliably determined.

This point is also under discussion in the context of the redrafting of IAS 39.

The choice of inputs and valuation techniques in determining fair value in an inactive market

The exposure draft considers the particular case of fair value measurement in the event of an inactive market. Some commentators consider that the proposed provisions are specific to the recent financial crisis and might not be relevant in the future.

The single unit of account used for measurement

The exposure draft does not indicate how a block of assets should be valued.

For example, the sale of a share portfolio can attract a liquidity discount if the market is not capable of absorbing the quantity. However in other circumstances the transfer of a block of identical shares can be accompanied by a control premium.

What is the fair value when the 'highest and best' use differs from the entity's current use?

The discussion should clarify the question of highest and best use. The draft standard proposes to measure an asset in terms of its highest and best use, and not its current use. Some criticisms point to the fact that the measurement of an asset based on highest and best use could cause the asset to be recognised at an overvalued amount which would not be consistent with the cash flows it generates.

The opponents of this principle consider that this excess value, even if it reflects the highest and best use of the asset, should not be recognised. It complicates the valuation method and does not provide useful information for the users of financial statements.

Scope

Questions remain as to the appropriateness of excluding IFRS2 and IAS 39.49 on the fair value of a financial liability with a demand feature.

➤ Conclusion

The aim of this exposure draft is to bring together in a single standard the principles of fair value measurement in IFRSs in order to reduce its complexity and standardise its application. This is a praiseworthy objective. However, it is difficult to measure all the consequences. The draft goes further than the US project, as the reference to fair value is more frequent in IFRSs than in the US GAAP. This is particularly so for the original measurement of financial assets and liabilities and for the recognition of certain non-financial assets (agricultural products for example).

Hence though this draft does not propose to amend the scope of fair value measurement, it does put forward certain amendments which could have an impact on the valuation techniques adopted by entities, particularly for non-financial liabilities and assets.

The exposure draft also requires an entity to provide disclosures that would enable financial statements' users to assess the impact of instruments whose fair value is determined using inputs which are not observable in a market. This additional requirement could represent a considerable burden of work for preparers.

Subscribe to Beyond the GAAP

Beyond the GAAP, MAZARS' monthly newsletter on accounting standards is 100% free.

To subscribe, send an e-mail to doctrine@mazars.fr including:

Your first and last name,

Your company,

Your e-mail address

You will begin receiving Beyond the GAAP the following month by e-mail in pdf format.

If you no longer wish to receive Beyond the GAAP, send an e-mail to doctrine@mazars.fr with "unsubscribe" as the subject of your message.

Improvements to IFRSs, 2009 project

On 26 August 2009 the IASB published its third annual IFRS improvements project and called for users to submit their comments by 24 November 2009.

The exposure draft on improvements for 2009 proposes 15 changes to ten standards and one interpretation. The main changes proposed relate to consolidation and business combinations.

⇒ Recognition of contingent consideration not determined at the date of a business combination under the former IFRS 3

Under the former IFRS 3, contingent considerations are included in the acquisition costs when payment is probable and it is possible to assess the amount reliably. Thus adjustments in the consideration on acquisition affect the consideration for the business combination without time limit.

In the revised standard, contingent considerations are included in the determination of the fair value at the acquisition date, even if they are potential in nature. Beyond the allocation period, any change in the debt corresponding to contingent consideration is reflected in profit or loss.

The question is how adjustments in the consideration transferred on acquisition accounted for under the previous IFRS 3 should be treated once the new standards IFRS 3R and IAS 27R are applicable (see question no 33 of our brochure "Business combinations and consolidation: – a summary of the new standards in 40 Q&As"). In this instance, the IASB proposes to continue to recognise changes in the corresponding debt against goodwill.

⇒ Treatment of voluntarily exchanged share-based payment awards in the acquiree against share-based payment awards in the acquirer

In its analysis of the costs of business combinations, the revised IFRS 3 distinguishes between the following two situations:

- the acquirer is obliged to exchange share-based payment awards in the acquiree for share-based payment awards in the acquirer;
- the acquirer voluntarily exchanges share-based payment awards in the acquiree for share-based payment awards in the acquirer.

In the first case, the replacement cost is analysed as part of the business combination, for the portion of the rights already acquired by the employees. In the second case, replacement is considered as a modification of the plan, not as part of the consideration transferred in the business combination.

The IASB proposed that the two cases should be treated identically. Thus, whether the exchange of share-based payment awards is obligatory or voluntary, a part at least of the replacement cost is included in measuring the consideration transferred in the business combination.

⇒ Measurement of non-controlling interests

The amendment aims to clarify that the choice of measuring non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the values attributed to the acquiree's identifiable assets and liabilities at the date of the business combination applies only to instruments that are entitled, at the date when control passes, to a proportionate share of the assets, i.e. only to minority interests (the securities existing at that date)

Other instruments that meet the definition of a non-controlling interest, such as share-based payments, the equity portion of a convertible bond, stock options etc. should be measured at fair value or in accordance with the applicable IFRSs (e.g. IFRS 2 for share-based payment awards).

⇒ Accounting for investments in associates

The Board has indicated the accounting treatment applicable where an entity holds an investment in an associate a portion of which is held through the intermediary of a venture capital organisation¹ which has opted to measure these investments at fair value in profit or loss.

The question then arises of whether the entire investment in the associate should be recognised by the equity method, which would have the effect of eliminating the exception authorised for the venture capital entity, or whether the two portions of the investment can be measured differently (fair value for the investment in the venture capital organisation, and the equity method for the direct holding).

The Board proposes to adopt the second approach, but emphasises that significant influence should be assessed when taking account of the two portions.

Example:

Entity A holds 15% of entity B and controls a venture organisation which itself holds 25% of entity B. Entity A exercises significant influence on entity B. The investment in B held by the venture capital entity is measured at fair value through profit or loss in its accounts. In the accounts of A, the venture entity's holdings in B are measured by the same method (i.e. fair value through profit or loss) while the investment in B held directly by A is measured by the equity method.

⇒ Application of IFRS 5 in the case of loss of significant influence or of joint control

By analogy with the treatment of losses of control under IFRS 5 (i.e. subsidiaries), the IASB proposes that an entity should classify its interests in an associate or a jointly controlled entity as held for sale when it is committed to a sale plan involving loss of significant influence or of joint control.

Example:

Entity A holds 25% of entity B. It decides to sell 10% of shares in B, which will result in a loss of significant influence. In this instance, the entity must classify all its interests as an asset held for sale and present them on a separate line at the bottom of the statement of financial position.

¹ Or mutual funds, unit trusts and similar entities including investment-linked insurance funds.

➤ Other proposed amendments

Standard	Summary of proposed amendment
IFRS 1 - IFRS 1 First-time Adoption of International Financial Reporting Standards	<p><u>Requires</u> an entity first adopting the standard that changes its accounting policies or its use of the exemptions contained in IFRS 1, after publishing interim accounts, to explain these changes and to update the reconciliations (previous accounting standard/IFRS) published previously.</p> <p><u>Authorises</u> an entity first adopting the standard to retain as a deemed cost any revaluation occurring during the period covered by the first IFRS statements but after the date of transition.</p>
IFRS 7 - Financial instruments: disclosures	Clarifies the level of disclosures required about the nature and extent of risks arising from financial instruments.
IAS 1 - Presentation of financial statements	Indicates that an entity must present the detail of the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements.
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	Harmonises the terminology of the standard with that of the forthcoming conceptual framework.
IAS 27 - Consolidated and Separate Financial Statements	<p>Clarifies that an entity establishing <u>separate IFRS statements</u> must apply the provisions of IAS 39 (and not IAS 36) to test the amount of its investments in subsidiaries, jointly controlled entities and associates for impairment; it matters little whether these investments are recognised at cost or at fair value through profit or loss.</p> <p>Indicates that the amendments to IAS 21, IAS 28 and IAS 31 resulting from the revised IAS 27 in January 2008 should be applied prospectively.</p>
IAS 34 - Interim Financial Reporting	Emphasises the level of disclosures which an entity must provide in its consolidated interim financial statements, in particular for financial instruments and fair value.
IAS 40 - Investment Property	<p>Removes the requirement to transfer investment property to inventory when it is developed for sale.</p> <p>Provides indications on the recognition of investment property which an entity proposes to sell. This property should be accounted for under IFRS 5 if the criteria for classification as held for sale are met. Otherwise (i.e. if the criteria for classification as held for sale are not met) they will continue to be recognised under IAS 40 but will be presented separately in the statement of financial position. Disclosures under IFRS 5 would then be required.</p>
IFRIC 13 - Customer Loyalty Programmes	Clarifies the meaning of fair value in the particular case of customer loyalty programmes.

Events and FAQ

Events/publications

Mazars Insight – Business combinations phase II

The IASB has substantially amended the accounting principles for business combinations and consolidation. The revised IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2009 (earlier application is permitted). The essential aspects of these amendments are presented in a new Mazars Insight: "Business combinations and consolidation – Key points of the new standards in 40 questions and answers".

This publication is available free on request.

"IFRS News" Seminar

The next session organised by Francis Lefèbvre Formation focusing on IFRS news will take place in Paris on 18 December 2009.

Registration forms can be obtained from Francis Lefèbvre Formation, 13-15 rue Viète, 75017 Paris
– www.flf.fr +33 (0)1 44 01 39 99.

Frequently asked questions

IAS / IFRS

- How should we treat a finance lease contract which takes effect on completion of construction (carried out by the lessor)?
- Accounting treatment of a programme of infrastructure inspection and repair;
- Must the consolidated comparative statement of financial position be restated when a subsidiary classified as held for sale ceases to be so?
- Can goodwill impairment accounted for, due to the application of IFRS 5, be reversed after the decision not to classify any longer a group of assets as held for sale?
- Deferred tax impact of the new Italian fiscal measures on property revaluations

Upcoming meetings of the IASB, IFRIC and EFRAG

IASB

16 - 20 November 2009

14 - 18 December 2009

18 - 22 January 2010

IFRIC

5 - 6 November 2009

7 - 8 January 2010

4 - 5 March 2010

EFRAG

11 - 13 and 16 November 2009

11 - 11 December 2009

27 - 29 January 2010

Beyond the GAAP is published by Mazars. The purpose of this newsletter is to keep readers informed of accounting developments. Beyond the GAAP may under no circumstances be associated, in whole or in part, with an opinion issued by Mazars. Despite the meticulous care taken in preparing this publication, Mazars may not be held liable for any errors or omissions it might contain.

The drafting of the present edition was completed on 2 November 2009.

© MAZARS – October 2009