

Beyond the GAAP

N°15– September 2008

Editorial

Quick march! This is the rate that the IASB and FASB have adopted if we are to believe the new convergence schedule. Indeed, the end of several current IASB members' mandates in 2011 is a good reason for stepping up progress. Indeed, the ambition to finish such a project is legitimate and understandable. In practice, the IASB will publish almost 40 texts between now and 2011, which is an average of almost one a month! Is convergence at all costs in such a short timeframe reasonable? Isn't the standard-setters' objective rather to keep comments to a minimum by applying a "rapid fire" policy?

Happy reading!

Michel Barbet-Massin

Jean-Louis Lebrun

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Editors-in-Chief:

Michel Barbet-Massin, Jean-Louis Lebrun

Columnists:

Claire Dusser, Françoise Flores, Remi Forgeas, Didier Rimbaud, Arnaud Verchère

Contact us:

Judit Kajtár, Zoltán Benedek
ifrsnewsletter@mazars.hu

Mazars

Exaltis, 61, rue Henri Régnauld
92 075 – La Défense – France

Tel. : 01 49 97 60 00

www.mazars.com

News

Fabienne Collignon has been seconded to the IASB

Fabienne Collignon (Senior Manager, Paris) joined the IASB's technical team at the beginning of September. She will participate in preparations of future interpretations of IFRSs by the IFRIC.

This secondment is another example of the IASB's recognition of the technical quality of Mazars and its employees.

Appointment of a new IASB member

The IASCF announced that Prabhakar KALAVACHERLA has been appointed to the IASB.

Born in India, Mr. KALAVACHERLA will join the IASB as a full-time member on 1 January 2009 for the period ending on 30 June 2013.



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IFRS news

➤ The credit crunch and the IASB's implication

In September, the Board gave a boost to its projects undertaken as a priority due to the credit crunch. These projects were launched in April 2008 following a report by the Financial Stability Forum¹ drafted in collaboration with key national and international financial institutions, including the IASB, and approved by the G7. The report highlighted three recommendations which are directly linked to the IASB's work:

Strengthen existing standards by insisting on principles for fair value measurement of financial instruments in an illiquid market.

Improve the quality of accounting principles and financial information relative to off-balance sheet items.

Improve the quality of information to be disclosed relative to the measurement of financial instruments.

¹ The Financial Stability Forum (FSF) was created in February 1999 on the initiative of the finance ministers and central bank governors of the G7 countries.

The progress on these principal projects is as follows:

Principles for fair value measurement of financial instruments on an illiquid market:

Last Spring, the IASB set up an Expert Advisory Group, made up of measurement experts, auditors and regulators. Its objective is to draw on their practical experience in terms of determining fair value according to the IFRS framework.

The work performed by the Expert Advisory Group was summarised on a draft document on:

the practical application of fair value measurement methods; and

the information to be disclosed.

This draft document is available on the IASB website and respondents are invited to comment until 3 October 2008.

The Expert Advisory Group will discuss the feedback received at its meeting planned in October. A final document will be published shortly after. It is important to note that this report will not be subject to approval by the

IASB. However, this work will provide the IASB with essential clarification for the preparation of the standard on the principles of fair value measurement, which is currently underway.

Consolidation:

This project aims to bring together under one standard the procedures applicable to the consolidation of all entities, including special purpose entities. A draft version of the exposure draft was published by the IASB staff last July in order to collate the very first comments from the public. The objective was to improve the quality and strength of the text which will be proposed as an exposure draft before the end of 2008.

In September, the Board held two round tables in London in order to collate the initial comments from participants in the draft version of the exposure draft published by staff on the IASB website. Overall, the participants were supportive of the project's objective to bring together all "controlled" entities under one standard and account for them using the same principles, including special purpose entities. However, the participants believed that much work remained to be done in order to ensure that the principles and application procedures proposed were strong and consistently applied. Moreover, the idea of "significant involvement" was deemed far too broad and could be modified or abandoned.

The Board will hold an exceptional meeting on 2 October in order to progress with the project. The Board's aim is to publish a definitive standard in the second half of 2009.

Derecognition:

This is a joint project with the FASB relative to the derecognition of financial assets notably by securitisation. The IASB and FASB will discuss the initial procedures proposed by their technical teams in October. According to the Memorandum of Understanding schedule, an exposure draft will be published in the first half of 2009 and the standard will be finalised by 2010.

Disclosures:

IFRS 7 - *Financial Instruments: Disclosures* will be modified to take into account new items regarding:

- risks associated with off-balance sheet items;
- fair value measurement; and
- liquidity risk on financial instruments.

The IASB plans to publish an exposure draft by the end of 2008.

➤ Fair value measurement

In September, the Board continued its deliberations with a view to publishing an exposure draft on fair value measurement in light of the comments received regarding SFAS 157 (published as a discussion paper in November 2006). Two elements of the US standard were adopted during this session:

- reference to the "highest and best use" when measuring an asset at fair value. It means measuring the asset in the most advantageous usage conditions from the point of view of an average market player;
- confirmation of existing IFRS principles. It includes valuation of an equity portfolio on the basis of the market price of each individual share, regardless of the number of securities held by the entity at the closing date.

➤ Publication of an exposure draft on the definition of discontinued operations

On 25 September, the IASB has issued an exposure draft on *Discontinued Operations*. This project to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* is part of the IASB and FASB's convergence project.

In this exposure draft, the IASB proposes:

- to revise the definition of discontinued operations by linking it to those of operating segments (IFRS 8 - *Operating Segments*) and Business (IFRS 3R - *Business Combinations*);
- to require additional disclosure about components of an entity that have been disposed of or are classified as held for sale which does not meet the definition of a discontinued operation.

Comments may be submitted to the IASB until 23 January 2009. Mazars plans to respond to the invitation to comment and will provide details on its opinions in a forthcoming issue of *Beyond the GAAP*.

➤ Update to the MoU

On 11 September 2008, the IASB and FASB published an update to the 2006 Memorandum of Understanding (MoU).

This document, which details the intentions of the two standard-setters to develop a joint accounting framework to improve the quality and comparability of financial information, sets new priorities and milestones with a view to achieving convergence in 2011.

According to the Chairmen of the IASB and FASB (Sir David Tweedie and Robert Herz) this target date of 2011 is doubly important:

- a number of jurisdictions including Canada, Japan, India and Korea have announced plans to adopt IFRSs from 2011;
- 2011 is the year in which the SEC will announce its decision on the possible adoption of IFRSs by US listed companies in 2014.

Highlights

➤ Publication of an exposure draft on the exemptions for first-time adoption of IFRSs

On 25 September, the IASB published the exposure draft *Additional Exemptions for First-time Adopters*.

This project to amend IFRS 1 - *First-time Adoption of International Reporting Standards* – proposes the introduction of additional exemptions to the current version of IFRS 1.

The objective is that costs or difficulties faced by first-time adopters are not excessive.

As such, the IASB plans to introduce:

- an exemption from the principle of retrospective application for oil and gas assets. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to IFRSs using the carrying amount of these assets as the presumed cost.

- an exemption from the principle of retrospective application for items of property, plant and equipment for use in operations subject to regulation. As such, the carrying amount of these assets may be used as the presumed cost. Recourse to this exemption is only possible if performing a retrospective restatement and determining the fair value of these assets are both impossible.
- An exemption from the application of IFRIC 4 - *Determining whether an Arrangement contains a Lease*. If a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination at the date of transition to IFRSs.

Comments may be submitted to the IASB until 23 January 2009. Mazars plans to respond to the invitation to comment and will provide details on its opinions in a forthcoming issue of *Beyond the GAAP*.

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Transactions with non-controlling interests: practices adopted by Groups listed on the Eurostoxx 50

On 10 January 2008, the IASB published revised versions of IFRS 3 and IAS 27 on the accounting of acquisitions and their subsequent treatment.

As part of the assessment of the impact of these standards, Mazars carried out a study on the practices adopted by Eurostoxx 50 companies in terms of accounting transactions with non-controlling interests.

➤ What is the applicable accounting treatment under current standards?

Firstly, it was noticed that current IFRSs :

- do not specify the accounting treatment applicable to variations (increases or decreases) in percentage of interests which do not impact the level of control.
- do not require a specific accounting treatment for put options on securities of subsidiaries allocated to non-controlling interests.

Purchases of non-controlling interests

Regarding purchases of non-controlling interests, groups have, in practice:

- either recognised additional goodwill which corresponds to the difference between the acquisition cost of the additional entity and the carrying amount of the non-controlling interests purchased (alternatively, they recognised income from the disposal in the case of a decrease in interest stake);
- or deducted this difference from shareholders' equity.

In the two cases, the consolidated carrying amounts of the identifiable assets and liabilities are not changed (no new calculation of fair value).

Put options on securities of subsidiaries held by non-controlling interests

The obligation for a group to purchase the securities held by a non-controlling interest, if the non-controlling interest exercises its option, leads to a debt being recognised in the group's financial statements. This debt is then measured at the present value of the strike price of the put option. Several approaches have been used for the recognition of the initial amount which offsets the debt:

- a "shareholders' equity" approach, which consists in recognising the debt against shareholders' equity,
- a "goodwill" approach, which consists in anticipating the impact of the combination, where the debt is offset by (a) a reduction in equity (in the carrying amount of the non-controlling interests "purchased") and (b) a goodwill (for the surplus).

➤ What changes are in the new texts?

IAS 27 R specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. The difference between the price paid or received and the carrying amount of the non-controlling interests is applied directly to Group shareholders' equity.

Insofar as goodwill will be determined once and for all at the date on which the acquirer obtains control of the acquiree, the recognition of put options according to the "goodwill" approach (approach based on an anticipated purchase) will, in our opinion, no longer be possible once this standard comes in to effect.

➤ What are the results of the study?

We noticed widespread practices: one group including mainly French companies and a group including the other Eurostoxx 50 companies. In fact, the latter do not specify the accounting treatment used in terms of purchasing non-controlling interests and put options. However, those who do so use treatments which are similar to those of the first group.

As such, more than 80% of French companies disclose information on the accounting treatment of transactions with minority interests and put options allocated to the latter.

Conversely, less than half of the other companies describe the accounting treatment applicable to transactions with non-controlling interests and around one in ten specifies the accounting treatment for put options allocated to non-controlling interests.

Insofar as non-controlling interests represent, on average, 7% of shareholders' equity for both French and other companies, this gap cannot be justified by a lower level of non-controlling interests in some groups compared to the others.

Overall for acquisition of non-controlling interest transactions, 70% of companies which provided information reported additional goodwill (and income from disposal in the case of a decrease in percentage stake), whereas 30% declared that they applied this difference to equity.

For the accounting treatment of put options allocated to non-controlling interests, around 60% of Eurostoxx 50 companies which specified their accounting treatment declared that they recognised a "goodwill".

As such, the application of these new standards should lead to the majority of listed groups modifying their accounting treatment for acquisition of non-controlling interest transactions and put options allocated to the latter.

A Closer Look

IFRS improvement project: what amendments are being proposed?

On 7 August 2008, the IASB published its annual Improvements to IFRSs project. This exposure draft is open for comment until 7 November 2008. The publication of the definitive standard is expected during the first half of 2009. For the second year, the IASB has recourse to the standard updating process for points which are, in principle, minor. Beyond the GAAP presents the amendments proposed and their possible impacts.

➤ IFRS 2 “Share-based Payment”:

The current wording of IFRS 2, which excludes business combinations (to which IFRS 3 applies) from its scope of application, may lead users to believe that business combinations excluded from the scope of application of IFRS 3 listed below fall within the scope of application of IFRS 2.

The Board proposes to amend paragraph 5 of IFRS 2 to confirm that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they do not meet the definition of a business combination in IFRS 3 *Business Combinations* (as revised in 2008).

➤ IFRS 5 “Non-current Assets Held For Sale and Discontinued Operations”:

The Board proposes to amend IFRS 5 to clarify that the standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

The IASB noted that disclosures on the measurement of assets and liabilities which are part of a group held for sale which are not within the scope of IFRS for measurement purposes are disclosed in notes other than the one regarding assets held for sale. Examples include:

- financial instruments which are measured in accordance with IAS 39 ; or even
- deferred tax assets and liabilities which are measured in accordance with IAS 12.

The IASB reminds users that this information is not to be repeated unless it enables users to assess the financial impacts of discontinued operations or disposal groups. The proposed amendment therefore specifies that the information required by other IFRSs does not apply to non-current assets or disposal groups except in specific cases.

➤ IFRS 8 “Operating segments”:

The Board decided to amend the Basis for Conclusions accompanying IFRS 8 to clarify its view that an entity is not required to present all operating segment assets if this information is not sent to the chief operating decision maker. For the IASB, this reaffirms the consistency of information used internally by the management and published information on the segment. Thus, there would no longer be any discrepancy with SFAS 131 and its interpretations. The scope of this amendment may be questioned insofar as:

- the current standard would not be modified (compulsory presentation of the assets in each operating segment maintained);
- the Bases for Conclusions do not form part of the standard (they accompany it). Moreover, they are not part of the EU regulations.

➤ IAS 7 “Cash Flow Statements”:

This amendment specifies that expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs, shall be classified as cash flows from operating activities (and not cash flows from investing activities). Such expenditure includes advertising, R&D and training costs booked as expenses but also exploration and evaluation of mineral resources when they are recognised as expenses, as permitted under IFRS 6.

As such, only expenditure that results in a recognised asset can be classified as cash flows from investing activities.

➤ IAS 18 “Revenue”:

The Board proposes to amend the guidance accompanying IAS 18 to address the issue of determining, during a sale transaction, whether an entity is acting as a principal (for its own account) or as an agent (on behalf of a third party).

This distinction is key because it directly influences the revenue recognition and the presentation of profitability. Readers should be reminded that:

- in an agent relationship, only the commission is recognised as revenue;
- in a proprietary trading transaction, the amount invoiced to the client is recognised as revenue and the amount paid to the supplier is recognised as an expense.

An entity is acting as a principal when it is exposed to the significant risks and rewards associated with the sale of a goods or the rendering of services. Four criteria can therefore be analysed either individually or in combination:

- the entity has the primary responsibility for providing the goods or services;
- the entity bears the inventory risk;
- the entity is free to set prices;
- the entity bears the customer's credit risk.

It should be noted that a number of IFRS users, in the absence of specific guidelines in the current standard, refer to US GAAP (EITF 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent*) to perform their analysis. According to this interpretation, the agent/principal distinction is made on the basis of eight criteria, four of which are identical to the ones that the IASB proposes.

➤ IAS 36 “Impairment of Assets”:

According to current requirements, a goodwill acquired shall be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units which are liable to benefit from the synergies generated by the business combination. Each CGU or group of CGUs shall:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with IFRS 8.

A Closer Look

According to the current version of IFRS 8, it is possible to aggregate segments from internal reports for the purposes of presentation, in financial statements, of segment information. This aggregation is only possible if:

- the segments have similar characteristics; and
- each segment does not exceed the quantitative thresholds detailed in IFRS 8.

If so, is the largest CGU (or group of CGUs) to which the goodwill is allocated used for internal reporting or the sector presented in the financial statements (after aggregation of the segments)?

According to the IASB, the lowest level to which goodwill is monitored for the purposes of internal management (as defined by IAS 36) is the same level to which segment income is monitored by the general management (as defined in IFRS 8). The IASB therefore proposes to modify IAS 36 to indicate that the CGU may not be larger than a segment before aggregation.

➤ IAS 38 “Intangible Assets”:

Following the publication of the revised version of IFRS 3 in 2008, the IASB is proposing the following two amendments:

Paragraphs 36 and 37: According to IFRS 3R, the acquirer recognises an intangible asset of the acquiree separately if it can be identified. In other words, an identifiable intangible asset may necessarily be reliably measured.

The IASB proposes to bring IAS 38 into line with IFRS 3R.

Paragraphs 40 and 41: The IASB wishes to clarify the measurement techniques which may be used to determine, in a business combination, the fair value of intangible assets which are not traded on an active market. These measurement techniques include:

- Multiple approach (multiples reflecting market transactions);
- cost to recreate or replace approach;
- discounting estimated future net cash flows from the asset.

➤ IAS 39 “Financial Instruments: Recognition and Measurement”:

The IASB is proposing the following amendments:

Paragraph 2(g): The Board proposes to clarify that the scope exemption in paragraph 2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date. In application of paragraph 2 (g), current practice is generally to exclude from the scope of IAS 39:

- any forward contracts between an acquirer and a vendor, in a business combination, to buy or sell an acquiree at a future date; and
- put and call options that form an “in-substance” forward.

The IASB is proposing to indicate that this exclusion from the scope of IAS 39 only applies to forward contracts between an acquirer and a vendor, in a business combination, for a specified price.

Paragraph 11 A: The IASB proposes to indicate that the fair-value option under paragraph 11 A for hybrid financial instruments which contain one or more embedded derivatives does not apply when the host contract is outside the scope of IAS 39. In other words, if the host contract is not a financial instrument (a commodity contract or an insurance contract), it is not possible to apply the fair-value option to the hybrid instrument.

Paragraphs 97 and 100: The IASB wishes to clarify the provisions for reclassifying into profit or loss amounts (gains and losses) recognised within equity as part of a cash flow hedge. If the hedge leads to the subsequent recognition of a financial asset or liability, the amounts recognised within equity shall be reclassified into profit or loss in the period or periods during which the hedged cash flow affects profit or loss (and not the period or periods during which the asset or liability affects profit or loss).

Paragraph AG 33 (d): The implementation guide for IAS 39 provides specifications on whether it is compulsory to separate currency derivatives embedded in host contracts which are not financial instruments. According to AG 33 (d), currency derivatives embedded in contracts form an integral part of the contract (and are not separable) if the currency is:

- the functional currency of one of the parties to the contract; or
- the usual currency for similar transactions (for example the dollar for oil); or
- the currency generally used in the "economic environment" in which the transaction is taking place.

The IASB wishes to clarify the meaning of "economic environment" and is proposing to amend AG 33 to indicate that embedded derivatives in contracts denominated in foreign currencies which have one of the characteristics of a functional currency (as defined in IAS 21) are an integral part of the contract.

➤ When is the application date?

These amendments would be applicable for annual periods beginning on or after 1 January 2010. Early adoption would be permitted. It should be noted that the application dates for the amendments proposed to IFRS 2 and IAS 38 (for the part regarding paragraphs 36 and 37) have been brought forward to 1 July 2009. Thus, the application date of these draft amendments is consistent with the application date of IFRS 3R and IAS 27R.

Beyond the GAAP will inform you of the publication of the definitive standard and the amendments adopted.

A Closer Look

The SEC proposal on adoption of IFRS for public companies

On 27 August 2008, the Securities and Exchange Commission (SEC) issued its proposal on the roadmap that could lead to require public companies to issue their financial statements under IFRSs in 2014.

This proposal will be open for comments for a 60-day period after its publication in the Federal Register.

This roadmap presents a clear timetable for transitioning from US GAAP to IFRS as issued by the IASB. One of the key aspects of the roadmap is that the SEC will make its final determination in 2011 based on progress made by the International Accounting Standard Board (IASB) on specific issues.

➤ Milestones identified by the SEC

The SEC view is that in order to make its final determination on the adoption of IFRS for public companies, it must receive assurance that several issues are addressed and that sufficient progress on them are made. None of these issues are new, however the Staff reinforces their importance and the urgency to tackle them.

- Continued improvement in IFRS, which is in line with the objective of continuous improvement as part of the convergence between US GAAP and IFRS
- Change in the IASB organization in order to reinforce its accountability and to stabilize its funding. It has to be noted that, earlier this year, the Trustees of IASB proposed to set up an oversight committee, which would include the SEC, the European Commission and the Japan's Financial Services Authority.
- Development of an IFRS XBRL taxonomy¹ that would mirror the existing US GAAP XBRL taxonomy. It should be noted that IASC Foundation announced the publication of the IFRS taxonomy guide on 28 August 2008.
- Training and education of various users, such as preparers, auditors or investors

The date proposed for the assessment of the progress made on these topics and the final decision on the transition is 2011.

¹ Wikipedia defines taxonomy as "the practice and science of classification". Information is classified in a developing structured architecture. The term is often used regarding content management systems.

➤ Timeline for the transition

The proposal indicates the following timeline for the required adoption of IFRSs by US issuers:

- Large accelerated filers – 2014 financial statements (i.e. December 31, 2014 for a calendar year filer)
- Accelerated filers – 2015 financial statements
- Others – 2016 financial statements

A Closer Look

In addition, the SEC's roadmap would allow a limited numbers of filers to adopt IFRSs for years ending on or after 15 December 2009. This option would be available to companies that meet the following criteria:

- the company must be in the top-20 of its industry;
- IFRSs must be the most used accounting standard in the industry;
- the company must receive a no objection letter from the SEC.

The Staff estimates that at least 110 companies would meet the requirements.

➤ Other considerations

Under the proposal, a company would have to present three years of IFRS financial statements. Under IFRS 1 - *First-time Adoption of International Financial Reporting Standards* a entity has to present a reconciliation between its current GAAP and IFRSs only for the last financial statements issued under the current GAAP (i.e. 2013 financial statements for an adoption of IFRSs for 2014 financial statements). Consequently, the SEC will have to provide further guidance on how many years have to be reconciled between US GAAP and IFRSs.

The SEC will decide on the option to early adopt IFRSs at the time of its final decision on the use of IFRSs. Obviously this proposal may be modified following comments that will be received by the Staff and final rules may deviate from this roadmap. It is expected that the final rules will be issued by the end of the year.

Simplifying earnings per share: publication of exposure draft

On 7 August, the IASB published the Simplifying Earnings per Share exposure draft, proposing amendments to IAS 33. This project is part of the IASB/FASB convergence project and, as its title indicates, aims to simplify the calculation of earnings per share.

The IASB's proposal introduces changes essentially regarding:

- the definition of ordinary shares to be taken into account when calculating basic earnings per share;
- calculating diluted earnings per share in the presence of share-based payments;
- the treatment of participating instruments, particularly convertible preference shares, for diluted earnings per share.

➤ Ordinary shares to be taken into account when calculating basic earnings per share

According to the current version of IAS 33, the denominator of basic earnings per share corresponds to the weighted average number of ordinary shares outstanding during the period. This basic principle would remain unchanged according to the IASB's project.

However, the definition of an ordinary share outstanding would be changed. Ordinary shares shall be treated as outstanding from the date the holder of the shares has the right (or deemed right in the case of ordinary shares issuable for little or no cash or other consideration) to share currently in profit or loss of the period, notwithstanding the date of issue of these ordinary shares.

According to this new definition, potential ordinary shares (shares that have not been issued but are likely to be) resulting in options or share subscriptions warrants that can be immediately exercised would be considered as ordinary shares outstanding. Holders of these instruments have the right to share currently in the profit or loss of the period, even if they choose not to exercise their right.

Conversely, the IASB considers that ordinary shares, which the entity can buy back immediately for little or no cash, do not give the holder the right to share currently in the profit or loss as this right can be immediately withdrawn at any time for little or nothing in return.

These ordinary shares are therefore excluded from the calculation of basic earnings per share. However, they are considered as participating instruments.

This principle should be considered alongside IAS 27 and IAS 28 on taking into account potential voting rights which can be exercised immediately when the controlling interest increases.

Moreover, the project specifies the treatment of ordinary shares that the entity is obliged to buy back from the holder as a put option or forward transaction. In application of IAS 32, these shares do not constitute equity instruments but debt instruments. They are therefore classified as such, under liabilities on the balance sheet, and valued at discounted redemption value. Dividends paid on these shares are recognised in the income statement as compensation paid on a debt instrument.

The IASB considers that these shares are no longer ordinary shares. They are therefore not included in the denominator for basic earnings per share. Nonetheless, in most cases, they are qualified as participating instruments (see definition below).

To summarise, the number of ordinary shares to take into account in the calculation of basic earnings per share should be calculated as follows:

- Total number of ordinary shares issued
- Ordinary treasury shares
- Ordinary shares classified as debts due to a buyback agreement entered into by the entity
- Ordinary shares that the entity has the possibility of repurchasing immediately for little or no cash
- + Potential ordinary shares that may be exercised immediately by the holder for little or no cash.

➤ Treatment of options, share subscription warrants and share-based payments for the calculation of diluted earnings per share

The current version of IAS 33 details the following treatment for share subscription warrants, options and equivalents for calculating earnings per share:

- Treatment as if the options had been exercised at the beginning of the period
- Analysis of the exercise of options in two stages:
 1. Subscription to x number of ordinary shares at the average price for the shares over the period so that the product of x and the average share price corresponds to the total amount that would be received from the exercise of the options.
 2. Issue of free shares, for the difference between the total number of shares issued based on the exercise of options and x.

Shares issued at the average price are considered as antidilutive, and are excluded from diluted earnings per share. "Free" shares are fully dilutive and are included in the denominator for diluted earnings per share.

When options are relative to a share-based payment, the principle remains the same, but the total "value" of the exercising the options corresponds to the sum of:

- the strike price of the options; and
- the expense which remains to be recognised, over the period of residual acquisition of rights, in accordance with IFRS 2.

The IASB's project does not call into question these principles. However, it includes one modification and one specification:

- Modification: "paid" shares, described in point 1 above, are not subscribed to at the average price for the period, but the closing price.
- Specification: in the case of share-based payment, expenses under IFRS 2 which must still be recognised shall be booked as profit or loss from the exercise of the options in its amount net of any taxation.

➤ Other principles for calculating diluted earnings per share

The IASB's project does not modify fundamentally the calculation of diluted earnings per share. Only dilutive instruments are used: those which contribute to reducing earnings per share. To determine dilutive or antidilutive nature, the instruments concerned are classified from the most dilutive to the least dilutive.

Diluted earnings per share are therefore still determined in stages, instrument by instrument. When an instrument causes an accretion it is therefore not taken into account when calculating diluted earnings per share.

Nonetheless, the exposure draft proposes a different view on dilutive instruments which are recognised at fair value through profit or loss. These instruments are excluded from the calculation of diluted earnings per share, insofar as, according to the IASB, their dilutive effect has already been taken into account in basic earnings per share through the variations in fair value recognised.

➤ Taking into account participating instruments when calculating earnings per share

The draft amendment defines a participating instrument as an instrument that gives its holder the right to participate in dividends with ordinary shares according to a predetermined formula.

Rights to the profit or loss for the period shall be broken down between the different categories of participating instruments, in order to calculate earnings per share per instrument, as follows:

- allocation of all sums already distributed or which must be distributed to each category of earning instruments, by applying possible predetermined formulae (including catch-up payments of cumulative dividends);
- breakdown or residual profit or loss between the different categories, based on their rights if all profit or loss is distributed.

This regulation concerns all types of participating instruments, whether they are classified as debt or equity.

The project also details that, in the case where participating instruments can be converted into another category of participating instruments (for example, conversion of participating instruments into ordinary shares), there should be two calculations of diluted earnings by type of instrument: the first, considering the conversion of the instruments involved, and the second, not considering it. Diluted earnings to be presented in the financial statements shall be the figure which results from the most dilutive assumption.

The project does not yet indicate the compulsory application date for these amendments. In any case, early application will not be permitted.

Events and FAQ

➤ Events - Hungary

Seminars on "Current tax and accounting issues related to real estate"

Mazars organises a business seminar in cooperation with the British Chamber of Commerce in Hungary.

Lectures at will involve lessons learnt from the first year of the reverse charge VAT regime in the real estate sector and changes in accounting law regarding assets given free of charge. You will receive up to date knowledge on typical tax audit issues as well as, among others, transfer taxes related to this sector.

Date: Tuesday, 21 October 2008, 9:00-10:30
(Registration from 8:30)

Venue: Sofitel Budapest Maria Dorottya
(1051 Budapest, Roosevelt tér 2.)

Coffee and refreshments will be available during the seminar.

Programme:

9:00 – 9:30 Structuring of real estate transactions,
changes in accounting

Zsuzsa Fekete, Corporate Finance Expert, Mazars

9:30 – 10:00 Sensitive VAT implications of real estate
transactions

Zsolt Nyári, VAT Expert, Mazars

10:00 – 10:30 Approaches of the Tax Office in the course of
the tax audits

Sándor Szmicsek, International Tax Expert, Mazars

The talks will be followed by Q&A sessions.

The language of the seminar is English and no translation will be provided.

Participation:

BCCH members and Mazars Metrum clientele
free of charge

(please note that a no-show fee of HUF 6,000 + VAT
applies)

All other interested parties HUF 6,000 + VAT
(payable in cash on the spot)

**Registration is open until 17 October 2008
at www.bcch.com (events/upcoming)**

For further information on technical issues please contact
the BCCH office on 302-5200

Regarding professional issues please contact
Sandor Szmicsek on 885-0203

➤ Events - France

Seminars on "Current developments in IFRS"

Mazars' Technical Department will host a seminar
dedicated to current developments in IFRS. This seminar,
organised by Francis Lefèbvre Formation, will be held on
19 December 2008 in Paris.

A one-day seminar dedicated to the 2008 year-end
closings will be held on October 22 in Paris.

Registration forms can be obtained from Francis Lefèbvre
Formation, 13-15 rue Viète, 75017 Paris. www.flf.fr

➤ Frequently asked questions

- Recognition and measurement of structured loans hedged against a Fund segment.
- First-time application of IFRIC 12 - *Service Concession Arrangements* – to a BOOT contract (Buy, Operate, Own, Transfer).
- Assistance contract with recourse to sub-contractors: proprietary trading or simple agent?
- Credit crunch valuation questions

Upcoming meetings of the IASB, IFRIC and EFRAG

IASB

13 - 17 October 2008
17 - 21 November 2008
15 - 19 December 2008

IFRIC

6 - 7 November 2008
8 - 9 January 2009
5 - 6 March 2009

EFRAG

8 - 10 October 2008
12 - 14 November 2008
10 - 12 December 2008

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