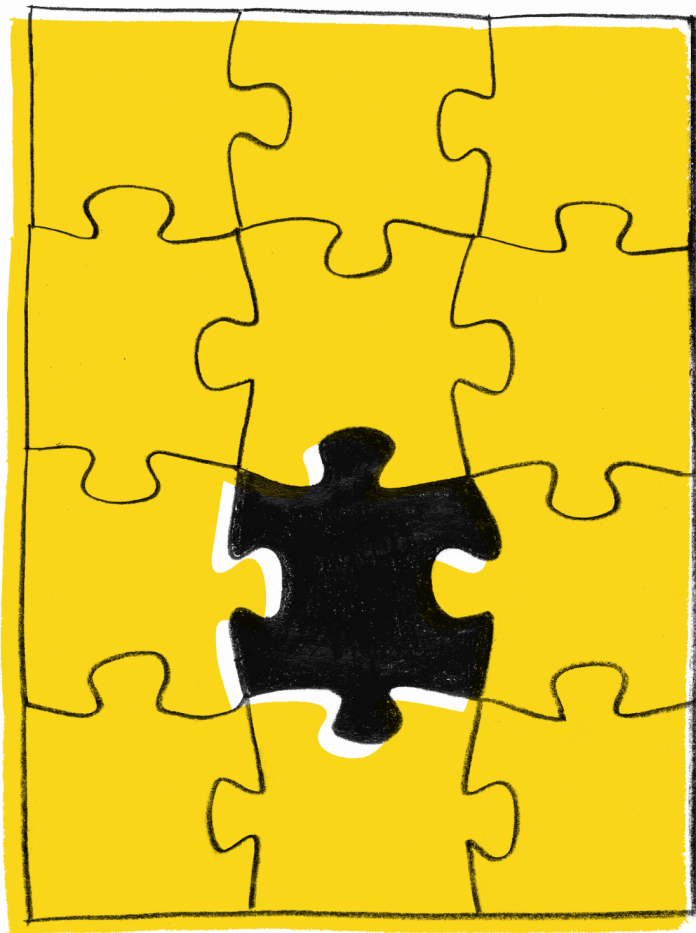


A Finance Director's guide to what's new for 2009

It's all-change for 2009: significant changes to IFRS and other requirements affecting half-yearly and annual reports take effect in 2009. Is your company on board?

May 2009



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(Edition 1.2)

Executive Summary

The current credit crisis and economic situation continue to pose challenges for companies, including for their financial reporting. Impairment issues, in particular for goodwill, and going concern disclosures are at the forefront of these challenges for many businesses. In addition, 2009 sees major changes to IFRS and many other requirements after a period of relative stability since 2005.

The changes will, in many cases, have a dramatic impact on the primary statements and the presentation and content of notes to the accounts, and therefore the messages given to investors. The most critical changes affect the half-yearly report too. Early consideration of these is crucial. Appendix A includes a checklist of the key changes for 2009.

Half-yearly reports (Section 1)

Important changes to IFRS take effect in 2009, which impact on half-yearly reports. Key actions:

- Re-format the primary statements (Section 1.2)
- Assemble different information for segment disclosures to that presented previously (Section 1.3)
- Apply recognition and measurement changes required by revised IFRSs and IFRIC Interpretations (Section 1.5)
- Involve external valuation specialists if necessary, eg for IFRS 2 changes (Section 4.1)

IFRS 8 Operating Segments (Section 2)

IFRS 8 *Operating Segments* will change the way segment information is reported. The key changes are:

- Segments are identified based on internal reports that are regularly reviewed by the 'chief operating decision maker'
- Segment reporting will follow the way information is reported to management
- Management information, rather than IFRS numbers, is presented in segment disclosures
- Some key disclosures (called entity-wide disclosures) apply even if there is only one segment

IAS 1 Presentation of Financial Statements (Section 3)

The revised version of the IASB's key standard, IAS 1 *Presentation of Financial Statements* will have a major impact on the format and presentation of IFRS financial statements in 2009. Things to do differently:

- Provide an extra comparative statement of financial position (balance sheet). This includes comparatives for the supporting notes
- Report performance in a statement of comprehensive income, which may be in one statement or two. The two-statement approach is similar to the current income statement and statement of recognised income and expense. The one-statement approach joins the two together

- Present the new-format statement of changes in equity as a primary statement, not a note to the accounts
- Provide additional disclosures, including for reclassification adjustments (previously called recycling)

Key changes to other IFRS requirements (Section 4)

Share-based Payment – Vesting Conditions and Cancellations (Section 4.1)

Important changes to IFRS 2 *Share-based Payment* impact on how share-based payments are measured and accounted for. The highlights:

- The IFRS 2 changes potentially affect a wide range of share-based payments
- The changes have a major effect where there are conditions involved that are not limited to performance or service. Examples are transfer restrictions, non-compete clauses and investment requirements in SAYE schemes
- The changes are retrospective
- Grant-date fair values of awards made in previous years may need to be remeasured: this may require involvement of external valuation specialists
- Reported profits will be impacted significantly where non-vesting conditions are not met, eg an employee stops saving in an SAYE scheme

IAS 23 Borrowing Costs (Section 4.2)

2009 sees the introduction of a requirement to capitalise directly attributable borrowing costs under IAS 23 *Borrowing Costs* (Revised 2007). The key changes are:

- Borrowing costs directly attributable to acquisition or construction of assets must be capitalised during the construction period
- Expensing all borrowing costs is no longer permitted
- The revised standard applies prospectively
- Borrowing costs capitalised may be on borrowings specific to an asset or an allocation of general borrowing costs
- Companies will need to ensure their systems are capable of capturing relevant key data

Expanded financial instruments disclosures (Section 4.3)

Important changes to disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* are effective for annual periods beginning on or after 1 January 2009. The highlights:

- Action will be needed to gather information and meet new disclosure requirements
- A three-level hierarchy for fair value disclosures is introduced
- Fair value disclosure requirements are expanded significantly, in particular where financial assets or financial liabilities are carried at fair values not based on observable market data
- Liquidity risk disclosures, including maturity analysis of financial liabilities, will change, in particular for derivative financial liabilities

Other IFRS developments (Section 5)

Whilst these changes are less pervasive, their impact could still be significant in individual cases. The key points:

- Companies may need to change their treatment of low-interest-rate government loans, advertising and promotional expenditure and property under construction for future use as investment property (Section 5.2)
- Some puttable instruments and obligations arising only on liquidation are reclassified from liabilities to equity (Section 5.3)
- Reclassification of non-derivative financial assets from held-for-trading or available-for-sale categories to loans and receivables is permitted in limited cases (Section 5.4)
- Reassessment of embedded derivatives is required when the reclassification option is taken (Section 5.5)
- Treatment of investments in subsidiaries, associates and jointly controlled entities in the parent's separate financial statements is simplified, easing the parent's transition to IFRS and reducing the impact of dividend traps (Section 5.6)

New IFRIC interpretations (Section 6)

The International Financial Reporting Interpretations Committee (IFRIC) has issued several new Interpretations that may have a significant impact in particular cases in 2009. The key things to watch out for:

- Companies that offer customer loyalty incentive programmes may need to revise their accounting policies and defer part of their revenue (Section 6.2)
- Companies that sell properties before construction is complete, eg sales 'off plan,' may need to change their revenue recognition policies (Section 6.3)
- Treatment of hedges of net investments in foreign entities will need to be reviewed as IFRIC 16 seeks to reduce inconsistencies in practice (Section 6.4)
- Companies that receive transfers of assets from customers, eg utilities, will need to reassess their asset and revenue recognition policies (Section 6.5)

UK GAAP changes (Section 7)

Even where group accounts are prepared under IFRS, companies often retain UK GAAP for the parent's individual or subsidiaries' accounts. After several years of stability, UK GAAP sees some significant changes in 2009. The key changes:

- Related party disclosures have changed and parent companies are no longer completely exempt from disclosure in their individual accounts. Subsidiaries' exemptions have also changed (Section 7.2)
- Changes to share-based payment accounting to align with IFRS may require involvement of external valuers (Sections 7.3 and 4.1)
- Changes to IFRS make it easier for parent companies to move their individual accounts to IFRS, but significant issues remain (Section 7.4)

Key Companies Act 2006 changes (Section 8)

The Companies Act 2006 applies to annual accounts for periods commencing on or after 6 April 2008. The highlights of the accounting requirements are:

- New disclosure requirements for off-balance sheet arrangements apply to both IFRS and UK GAAP accounts (Section 8.2)
- An overarching requirement that directors must not approve accounts unless they give a true and fair view is introduced (Section 8.3)

Corporate governance changes (Section 9)

For full list companies, Changes to the Combined Code and Disclosure and Transparency Rules apply for annual periods beginning on or after 29 June 2008. The key changes:

- Combined Code changes relax some Code provisions relating to the chairman (Section 9.2)
- New Disclosure and Transparency Rules are introduced on audit committees and corporate governance (Section 9.3)

Introduction

This guide is aimed at UK companies that prepare their consolidated financial statements under International Financial Reporting Standards, and have done so in previous years (ie they are not first-time adopters in 2009). Changes to other key requirements impacting on the annual report and parent's individual financial statements are also addressed. These include UK GAAP as many companies continue to prepare individual accounts under UK GAAP where they apply IFRS in the group accounts.

The guide is not intended to be a detailed list of all changes; rather it is intended to draw together the key changes that directors will need to address in preparing half-yearly and annual reports in 2009.

The guide provides an overview of the main changes to requirements that will impact on the half-yearly and annual report for an annual period commencing on 1 January 2009, assuming no early adoption in previous years. Some changes, for example those relating to the Companies Act 2006 and corporate governance, took effect from earlier dates but will first impact on companies with 31 December year ends in 2009. IFRS changes taking effect for later commencement dates are not covered, though a summary of these changes is provided in Appendix D.

1 Half-yearly reports

1.1 Half-yearly reports will change – action required

Important changes to IFRS take effect in 2009, which impact on half-yearly reports. Although the changes to IFRS discussed in Sections 2 to 5 will not generally impact on annual financial statements until 31 December 2009 year ends (save for short periods) action is required sooner as the key changes will need to be addressed in time for preparation of the half-yearly report to 30 June 2009.

Key actions

- Re-format the primary statements (Section 1.2)
- Assemble different information for segment disclosures to that presented previously (Section 1.3)
- Apply recognition and measurement changes required by revised IFRSs and IFRIC Interpretations (Section 1.5)
- Involve external valuation specialists if necessary, eg for IFRS 2 changes (Section 4.1)

AIM companies

Although the AIM Rules do not mandate IAS 34 *Interim Financial Reporting* where an AIM company adopts IFRS, the AIM Rules require the half-yearly report to include at least a balance sheet, an income statement and a cash flow statement and to contain comparative figures. Additionally, the half-yearly report must be presented in a form consistent with that to be adopted in the AIM company's next annual accounts. Thus, issues relating to recognition and measurement and to presentation of primary statements discussed in this section apply to AIM companies even if they do not state compliance with IAS 34.

1.2 Impact of IAS 1 (Revised 2007)

For annual periods commencing on or after 1 January 2009, IAS 1 *Presentation of Financial Statements* (Revised 2007) applies and makes significant changes to the presentation of the primary statements (see also Section 3). The revised IAS 1 impacts on the half-yearly report as the presentation will need to be consistent with that to be adopted at the full year.

IAS 34 *Interim Financial Reporting* states that condensed financial statements shall include, at a minimum, those headings and subtotals that were included in the most recent annual report. Because IAS 34 requires the same accounting policies to be applied in the half-yearly report (referred to as interim financial reports in IAS 34) as in the annual financial statements, for the first year in which the revised IAS 1 is applied, the condensed financial statements should include the headings and subtotals to be presented in the first annual financial statements applying the revised IAS 1. If the entity intends presenting its statement of comprehensive income in its annual financial statements in two statements, it must adopt the same format in its half-yearly report.

Condensed financial statements

IAS 34 allows an entity to publish a reduced amount of financial information in half-yearly reports and this is the approach normally adopted. Minimum content includes:

- condensed statement of financial position (balance sheet)

- condensed statement of comprehensive income, presented either as one statement or as two statements (ie a statement of comprehensive income and a separate income statement)
- condensed statement of cash flows
- condensed statement of changes in equity
- basic and diluted earnings per share
- selected explanatory notes
- additional line items or notes if their omission would make the condensed financial statements misleading.

IAS 34 requires a statement of financial position at the end of the previous financial year. For other statements, IAS 34 requires comparatives for the corresponding half-year. No opening comparative statement of financial position is needed. However, the AIM Rules require a comparative balance sheet (statement of financial position) for the corresponding half-year, whereas IAS 34 does not.

1.3 Going concern issues

Although IAS 1 *Presentation of Financial Statements* (Revised 2007) does not apply directly to the structure and content of condensed financial statements prepared under IAS 34, IAS 1.4 states that IAS 1.15-35 apply to such condensed financial statements. These paragraphs cover general principles on which financial statements are based, such as materiality, accruals and fair presentation. Significantly in the current economic, they also include the IAS 1 requirements relating to going concern.

IAS 1.25 includes a requirement for management to make an assessment of the entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

IAS 1.26 requires that, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Thus, the requirement to look forward at least twelve months applies at the half year as well as at the full year.

1.4 Impact of IFRS 8 Operating Segments

Changes to requirements on segment reporting impact on half-yearly reports. Segment information is required only where the entity is required by IFRS 8 *Operating Segments* (see Section 2) to disclose segment information in its annual accounts. IFRS 8 itself is mandatory for accounting periods commencing on or after 1 January 2009. Segment information required in the half-yearly report includes:

- revenue from external customers
- inter-segment revenues
- segment profit or loss
- total assets for which there has been a material change from the last annual financial statements
- a description of the difference from the last annual financial statements in the basis of segmentation or measurement of segment profit or loss
- a reconciliation of the total of reportable segments' profit or loss to the entity's profit or loss before tax and discontinued operations.

This means that all entities must assess, before the half year is reported, which segments they will report. Many entities will have changes in segments and will need to explain these in their half-yearly financial report.

1.5 Recognition and measurement changes

In addition to the presentation and disclosure changes to half-yearly reports arising from IFRS 8 and the revised IAS 1, other revisions to standards and new IFRIC Interpretations will impact on recognition and measurement of items and must therefore be addressed in time for the preparation of half-yearly reports. Those changes most likely to have impact on the half-yearly report are summarised below:

- Amendments to IFRS 2 *Share-based Payment* relating to vesting conditions and cancellations require retrospective remeasurement of some share-based payment awards. Revised grant-date fair values will need to be obtained prior to preparation of the half-yearly report and any other changes arising from the amendments to IFRS 2 taken into account. Implementing the changes to IFRS 2 may require the involvement of external valuation specialists. See Section 4.1 for more details
- The revised IAS 23 *Borrowing Costs* requires capitalisation of borrowing costs relating to qualifying assets. If a company's previous accounting policy had been to expense all borrowing costs, the revised standard will change the accounting for such costs where the commencement date for capitalisation is on or after the standard's effective date. Although this means that prior year restatement is not required, application of the revised standard could still impact on the first-half results in 2009. See Section 4.2 for more details
- Recognition and measurement changes may also arise from other standards, for example:
 - The amendments to IAS 32 *Financial Instruments: Presentation* relating to puttable instruments and obligations arising on liquidation may require instruments to be reclassified in limited cases (see Section 5.3)
 - The amendments to IAS 38 *Intangible Assets* as a result of the IASB's Improvements Project may require earlier expensing of advertising and promotional costs (see Section 5.1)
 - IFRIC 13 *Customer Loyalty Programmes* means that companies offering customer loyalty incentives programmes may need defer part of their revenue (see Section 6.2)
 - IFRIC 15 *Agreements for the Construction of Real Estate* means that companies that sell properties prior to completion may need to revise their recognition and measurement of revenue (see Section 6.3)

1.6 Measurement issues in current economic conditions

IAS 34.28 requires the same accounting policies to be applied in the half-yearly report as are applied in the annual financial statements. Application of this requirement is particularly important in the current economic conditions where markets are volatile and budgets and forecasts may need to be revised. Key areas likely to be impacted are:

- Revaluations (for example, under IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property*): material changes compared to the last annual reporting date in market values on which fair value measurements are based are more likely to occur than in recent years. Where such material changes have occurred, they must be reflected in the half-yearly report. IAS 34 Appendix C notes that directors may not need the valuations at interim dates to be carried out by a valuer who is professionally qualified. However, where markets are volatile, directors may need to obtain independent valuations at the half year

- Impairments: indicators of possible impairment may arise during the half year. If they do, impairment tests need to be carried out under IAS 36 *Impairment of Assets*, or IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets falling within that standard's scope. If an impairment is identified, this must be reflected in the half-yearly report

1.7 Restatement of prior interim periods

Generally, the financial statements of prior interim periods should be restated to reflect a new accounting policy that will be used in the annual financial statements under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. There are exceptions, for example, when a transition is specified by a new Standard or Interpretation, or occasionally when it is impracticable to determine the cumulative effect.

1.8 Where can I see a presentation example?

The 2009 edition of the Grant Thornton IFRS Example Interim Financial Statements illustrates the application of IAS 34, including the impact of IFRS 8 and IAS 1 (Revised 2007).

2 IFRS 8 Operating Segments

2.1 Introduction

IFRS 8 *Operating Segments* will change the way segment information is reported.

Highlights

- Segments are identified based on internal reports that are regularly reviewed by the 'chief operating decision maker'
- Segment reporting will follow the way information is reported to management
- Management information, rather than IFRS numbers, is presented in segment disclosures
- Some key disclosures (called entity-wide disclosures) apply even if there is only one segment

IFRS 8 replaces IAS 14 *Segment Reporting* with effect from annual periods commencing on or after 1 January 2009. Restatement of comparative information is required when IFRS 8 is adopted, unless the necessary information is not available and the cost to develop it would be excessive.

IFRS 8 introduces new disclosure requirements for companies preparing accounts under IFRS. It requires entities to adopt the 'management approach' to reporting on their operating segments. Therefore, the information to be reported in annual financial statements will be the same as that used by management internally for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 makes consequential changes to IAS 34 *Interim Financial Reporting*. Thus, IFRS 8 will need to be addressed in good time for half-yearly reports in the first year in which IFRS 8 is applied. For more on IAS 34, see Section 1.

IFRS 8 requires the amounts disclosed to be based on the measures reported internally. Thus, the management information disclosed is likely to be prepared using non-IFRS measurement methods.

IFRS 8 retains the same general scope of IAS 14. It requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public markets to disclose segment information.

For financial reports containing both group and parent financial statements, the segment information is only required in the consolidated financial statements.

2.2 Main changes compared with IAS 14 requirements

Identifiable reportable operating segments

IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the 'chief operating decision maker'. This term identifies a function, not necessarily a manager with a specific title. The function of the chief operating decision maker is to allocate the group's resources and to assess the performance of the operating segments of the group. So the chief operating decision maker could be the Board of Directors or a subset of the Board.

The definition of an operating segment in IFRS 8 includes a component of an entity that sells primarily or exclusively to other components of the entity, if the entity is managed in that way. This is different from IAS 14, where an entity looks at external sales to define segments, and internal sales are disclosed only if material to the segment.

Aggregation criteria and qualitative thresholds

IFRS 8 includes similar requirements to IAS 14 to ensure that:

- operating segments that exhibit similar long-term financial performance and similar economic characteristics may be aggregated in limited circumstances into 'reportable segments'
- segments above certain materiality thresholds are reported separately
- separately reported segments collectively include at least 75% of the entity's total revenue.

Disclosure of reportable segment information

IFRS 8 disclosure is more extensive to enable users of the financial statements to evaluate better the nature and financial effects of the business activities and economic environment in which the entity operates. The management approach is intended to give users an opportunity to query how the entity is controlled by its senior decision maker. Disclosure includes:

- descriptive information about the factors used to identify the entity's operating segments, including the basis of organisation
- types of products and services from which each reportable segment derives its revenue
- a measure of the profit or loss and total assets of each reportable segment
- a measure of liabilities for each reportable segment if this information is regularly provided to the chief operating decision maker
- for each reportable segment, a specified list of items (eg revenues from external customers) to be disclosed, even if they are not included in the measurement of segment profit or loss reported but are regularly provided to the chief operating decision maker.

Measurement of segment information

IFRS 8 (unlike IAS 14) does not define segment revenue, segment expenses, segment result, segment assets and segment liabilities. Instead, under IFRS 8, the amount of each segment item reported is the measure reported to the chief operating decision maker.

Disclosure is required to explain differences between the total of reported segment amounts and the entity's overall profit or loss before income tax unless it is readily apparent from other reconciliations required by IFRS 8 (see below).

Reconciliation to financial statement amounts

IFRS 8 requires reconciliations for total reportable segments to the entity's total reported IFRS figures for all of the following items:

- Revenue
- Profit or loss before income tax expense/income and discontinued operations
- Assets
- Liabilities (if reported)
- Every other material item of information disclosed as required by IFRS 8

All material reconciling items shall be separately identified and described.

Entity-wide disclosures

The following disclosures are required for all entities subject to IFRS 8, including those that just have one reportable segment:

- Revenues from external customers for each product and service
- Revenues from external customers attributable to the entity's country of domicile and to all foreign countries in total (disclosure must include the basis of attributing revenues to individual countries). If revenue amounts are material for an individual country, this shall be disclosed separately
- Certain non-current assets located in the entity's country of domicile and located in those foreign countries in total in which the entity holds assets. Again, if the assets are material for an individual country, these shall be disclosed separately

The amounts reported above should be based on financial information that is used to produce the entity's financial statements (using IFRS-based figures). This disclosure is required regardless of whether management uses this information to make operating decisions. Exemption is available only if the information is not readily available and would cost excessive amounts to obtain, but this fact should be disclosed.

An entity also needs to disclose information about the extent of its reliance on its major customers, although the identity of the major customers does not have to be disclosed.

2.3 What needs to be done to prepare for IFRS 8?

The information required by IFRS 8 should generally be that which management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Therefore there should be few additional costs for an entity in adopting this new IFRS and this information should be available on a timely basis due to management reporting procedures.

Management will need to assess the existing reporting structures of the entity to determine which set of components constitutes a reportable operating segment. This will require subjective judgement and may raise questions relating to the relative importance of certain internal reports.

2.4 Impact of IFRS 8 on goodwill impairment testing

IAS 36 *Impairment of Assets* requires goodwill acquired in a business combination to be allocated to the cash-generating units (CGUs) or groups of CGUs of the acquiring entity expected to benefit from the synergies of the combination (IAS 36.80). IFRS 8 amended IAS 36 in this respect. Each CGU (or group of CGUs) should not be larger than an operating segment determined in accordance with IFRS 8. This requirement applies even where an entity is outside the scope of IFRS 8. Previously, this allocation threshold was based on primary or secondary segments as defined in IAS 14.

Consequently, all entities that have goodwill should consider whether their allocation to CGUs (or groups of CGUs) is consistent with this requirement. Any changes to the allocation should be in place for the purpose of goodwill impairment testing for the first period in which IFRS 8 is applied or for periods beginning on or after 1 January 2009 for entities that are not within the scope of IFRS 8.

The segment structure acts as an upper limit on aggregation for goodwill allocation purposes and will not therefore affect impairment testing if goodwill is allocated at a lower level. For example, if an entity has allocated goodwill to individual CGUs which are smaller than segments (as defined in both IFRS 8 and IAS 14) the segment limit has no effect.

If implementation of IFRS 8 requires a new or more detailed goodwill allocation, there is no specific requirement for retrospective application, and thus the revised allocation is applied prospectively. Thus, any resulting impairment will impact on profit or loss in the current year.

In addition to the general impairment disclosures required by IAS 36, an entity within the scope of IFRS 8 is required by IAS 36.129-130 to provide additional segmental information relating to impairment. This includes impairment losses by reportable segment, the reportable segment to which assets suffering material impairment losses belong and the amount of impairment loss by reportable segment where the loss relates to impairment of a CGU.

2.5 Where can I find further guidance?

For more detailed guidance on the application of IFRS 8, please ask for the forthcoming Grant Thornton International guide 'Operating Segments – Applying IFRS 8 in practice'.

The Grant Thornton International IFRS Example Financial Statements illustrate the application of IFRS 8.

3 IAS 1 Presentation of Financial Statements

3.1 Key impacts

The revised version of the IASB's key standard, IAS 1 *Presentation of Financial Statements* will have a major impact on the format and presentation of IFRS financial statements in 2009.

Things to do differently

- Provide an extra comparative statement of financial position (balance sheet). This includes comparatives for the supporting notes
- Report performance in a statement of comprehensive income, which may be in one statement or two. The two-statement approach is similar to the current income statement and statement of recognised income and expense. The one-statement approach joins the two together
- Present the new-format statement of changes in equity as a primary statement, not a note to the accounts
- Provide additional disclosures, including for reclassification adjustments (previously called recycling)

The revised IAS 1 is mandatory for periods beginning on or after 1 January 2009 and must be applied retrospectively. IAS 1 is critically important to any entity reporting under IFRS, as it sets out the basic framework for a set of IFRS financial statements.

The changes to IAS 1 also impact on interim financial reports, including the half-year in which the revised standard is adopted (see Section 1). The revised standard makes significant changes to the presentation of IFRS financial statements. The changes give rise to new choices on how to present financial performance. IAS 1 also includes numerous detailed requirements; only the major changes from the previous version are covered in this guide.

3.2 New titles for statements

The revised standard introduces new terms for the individual statements, although it is not mandatory to use these titles:

- Statement of financial position (formerly the balance sheet)
- Statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows (largely unchanged and governed by IAS 7 *Statement of Cash Flows*)

3.3 Additional comparative statement of financial position

The basic requirement in IAS 1 remains that a minimum of one year's comparative figures needs to be provided for all numerical information in the financial statements and for narrative and descriptive information where relevant to understanding the current period's financial statements. However, the revised IAS 1 introduces an additional requirement in specific situations for a comparative statement of financial position at the start of the earliest period presented. There are no other major changes to the requirements governing the format of the statement of financial position.

Typically, the new IAS 1 requirement will mean that three statements of financial position will be provided: the current period end and two years of comparatives. The additional comparative statement of financial position is required when the entity:

- applies an accounting policy retrospectively
- makes a retrospective restatement of items in its financial statements, or
- reclassifies items in its financial statements.

The third of these (reclassifying items) is not the same as a reclassification adjustment (see Section 3.6). An entity reclassifies items when, for example, it reallocates them from one heading to another. It does not matter whether the additional comparative statement of financial position is adjusted in any way compared to what has been published previously.

Strictly, the additional comparative statement of financial position must be supported by additional comparatives in the notes to the accounts in so far as they relate to information in the statement of financial position.

In practice, the additional comparative statement of financial position will be needed often, for example whenever a new standard is adopted, unless it is applied only prospectively. Thus, all entities reporting under IFRS will need to provide the additional comparative statement of financial position in the first year in which they apply IAS 1 (Revised 2007). It is possible that many entities will provide the additional comparative statement of financial position every year for consistency.

3.4 Statement of comprehensive income

What is comprehensive income?

Comprehensive income comprises all items of income and expense, ie non-owner changes in equity (net assets) recognised during the period.

Comprehensive income includes:

- profit or loss for the period, and its components
- other comprehensive income (OCI), which includes items of income and expense not recognised in profit or loss for the period, such as:
 - fair value remeasurements (eg on property, plant and equipment or available-for-sale financial assets)
 - actuarial gains and losses recognised immediately outside profit or loss
 - certain exchange differences.

Comprehensive income excludes the following items, which appear in the statement of changes in equity:

- New share issues
- Dividends on equity instruments
- Credits to equity for share-based payments
- Transfers between reserves
- Effects of retrospective policy changes or error correction

Presentation choice

There is a choice between presenting comprehensive income in one statement or two. The two-statement approach is largely similar to the income statement and statement of

recognised income and expense (SORIE) presented under the previous version of IAS 1 and involves presenting:

- an income statement setting out the components of the profit or loss for the period
- a statement of comprehensive income beginning with profit or loss for the period and including other components of comprehensive income, ie all items of income and expenditure not included in arriving at profit or loss.

Alternatively, the information may be combined into a single statement of comprehensive income including the components of profit or loss, ie what would go in an income statement if presented separately, and other comprehensive income.

The income tax relating to each component of OCI, including reclassification adjustments, must be disclosed.

Disclosure is also required of the allocation for the period of profit or loss and total comprehensive income between the owners of the parent and minority/non-controlling interests.

3.5 Statement of changes in equity

Under the revised IAS 1, the statement of changes in equity must be presented as a primary statement; it cannot be a note to the accounts. The main purpose of presenting this statement separately is to show owner changes in equity and distinguish them clearly from comprehensive income. The statement of changes in equity includes:

- total comprehensive income for the period showing separately the parent and minority interest shares
- for each component of equity, the effects of retrospective application or restatement under IAS 8
- a reconciliation between the opening and closing balances for each component of equity and total equity, with comparatives, showing separately for each component changes resulting from:
 - profit or loss
 - each item of OCI
 - transactions with owners in their capacity as owners.

Dividends and other distributions to owners are presented in the statement of changes in equity. Total dividends recognised as distributions to owners in the period and amounts per share need to be disclosed, but this detailed information may be presented in the notes.

3.6 Reclassification adjustments

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were included in OCI in the current or previous periods. Though the term is new, the items concerned are not. They represent what was previously referred to as 'recycling'. Reclassification adjustments include:

- gains and losses on cash flow hedges originally recognised in OCI and later recognised in profit or loss to match with the hedged item
- gains and losses on remeasurement of available-for-sale financial assets originally recognised in OCI and taken to profit or loss on disposal of the asset
- cumulative exchange differences on foreign operations originally recognised in OCI and taken to profit or loss when those operations are disposed of.

IAS 1 (Revised 2007) requires disclosure of reclassification adjustments relating to components of OCI in the period in which they are reclassified to profit or loss. They may be presented separately within the statement of comprehensive income or disclosed in the notes to the accounts.

Reclassification adjustments do not arise on the following items because they are not included subsequently in profit or loss for any year even if they impact on retained profits:

- Actuarial gains and losses
- Revaluation gains on property, plant and equipment (or, less commonly, intangible assets)

3.7 Where can I see presentation examples?

Grant Thornton International's IFRS Example Financial Statements illustrate the application of IAS 1 (Revised 2007). In addition, Implementation Guidance issued with IAS 1 (Revised 2007) sets out presentation examples for primary statements and key notes.

4 Key changes to other IFRS requirements

This section outlines key changes to IFRS requirements other than IAS 1 and IFRS 8 that are likely to have the most pervasive impact in 2009. Other IFRS developments covered in Section 5 may have a significant impact on particular companies but are less likely to apply to as many companies as those covered in this section.

4.1 Share-based Payment – Vesting Conditions and Cancellations

Important changes to IFRS 2 *Share-based Payment* impact on how share-based payments are measured and accounted for.

Highlights

- The IFRS 2 changes potentially affect a wide range of share-based payments
- The changes have a major effect where there are conditions involved that are not limited to performance or service. Examples are transfer restrictions, non-compete clauses and investment requirements in SAYE schemes
- The changes are retrospective
- Grant-date fair values of awards made in previous years may need to be remeasured: this may require involvement of external valuation specialists
- Reported profits will be impacted significantly where non-vesting conditions are not met, eg an employee stops saving in an SAYE scheme

The IFRS 2 Amendment

In January 2008 the IASB issued an Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*. This amendment is effective for accounting periods beginning on or after 1 January 2009 and should be applied retrospectively.

The amendment may require some entities to re-estimate the grant date fair value of certain share-based payments where those share-based payments contain conditions for vesting which do not qualify as service or performance conditions. Such conditions are referred to as 'non-vesting conditions' and may include:

- a requirement for the employee to save towards the exercise price of the share options, eg in Save as You Earn Schemes (SAYE)
- non-compete clauses
- transfer restrictions.

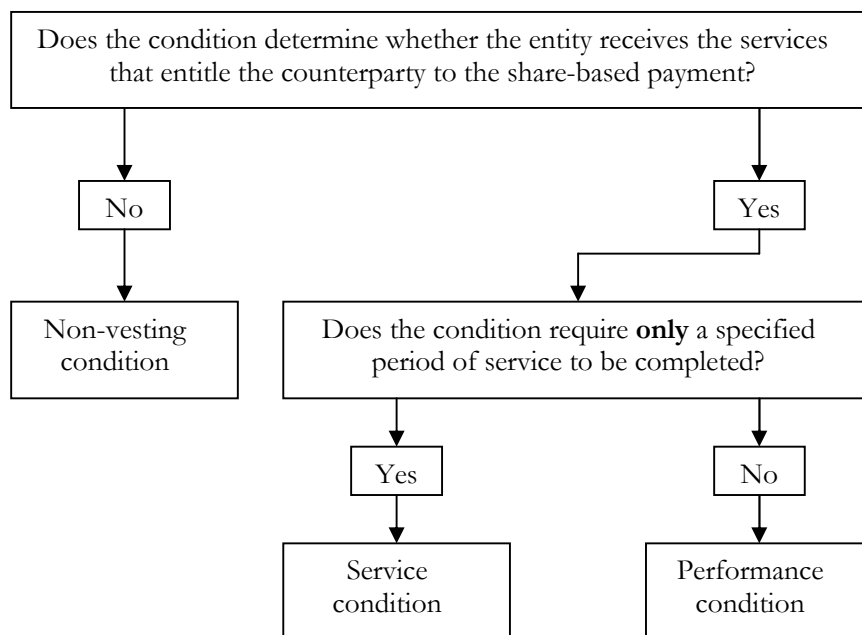
Where such non-vesting conditions exist, the possibility of those conditions failing to be met needs to be taken into account in estimating the grant date fair value of the instrument granted.

Separately, the amendment clarifies the accounting treatment where the options do not vest because of a failure to satisfy one of these non-vesting conditions. As discussed in more detail below, where either the entity or the counterparty can choose to fail the condition, such a failure is treated as a cancellation. Where the failure to meet a non-vesting condition is not within the control of either the entity or the counterparty, the company should

continue to charge the grant date fair value of the instrument over the remainder of the vesting period.

Distinguishing between different conditions

The amendment to the standard defines vesting conditions as the conditions that determine whether the entity receives the service that entitles the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. The amendment introduces a flowchart, just after paragraph IG4A, which helps distinguish between non-vesting, service and performance conditions. This is reproduced below.



Consider the following types of conditions:

- In order for an employee's options to vest the employee must continue to work for the next three years. This is a service condition
- In order for an employee's options to vest the employee must continue to work for the next three years during which time earnings per share must increase by 5%. This is a performance condition
- In order for an employee's options to vest the employee must save an element of his remuneration each week, which will be used to satisfy the option exercise price; failure to save will mean that the options will lapse. This is a non-vesting condition

Accounting for a service condition

Service conditions are not taken into account when estimating the fair value of the share option granted. Instead the annual charge is trued-up each year based on an estimate of the number of options that are expected to vest.

Accounting for a performance condition

Assuming that the performance condition is not a market condition, it is not taken into account when estimating the fair value of the share options granted. Instead, the annual charge is trued-up each year based on an estimate of the number of options that are expected to vest. If the performance condition were a market condition, the accounting treatment would be similar to that for a non-vesting condition.

Accounting for a non-vesting condition

The non-vesting condition is taken into account in estimating the fair value of the options granted. If the ability to meet the non-vesting condition is within the control of one of the parties then failure to meet that condition is treated as a cancellation (IFRS 2.28A).

Cancellation causes an immediate expense of the share-based payment charge that would have been recognised over the remainder of the vesting period. Where the failure to meet a non-vesting condition is not within the control of either the entity or the counterparty, the company should continue to charge the grant date fair value of the instrument over the remainder of the vesting period (in a similar way to a failure to meet a market condition).

Example

On 1 January 2009 the company grants rights to 100 options to a director of the company. These options are part of a Save as You Earn scheme which requires the director to save 2% of his monthly salary. The savings will be used to satisfy the exercise price of the options at the date of exercise. The options vest if the director is still employed at the end of 2011, ie these share options have a three-year vesting period.

At 31 December 2009 the director is still saving, and it is expected that he will continue to work for the company for the next two years. The grant date fair value of the options **without** taking into account the possibility that the director may decide to stop saving is £3 per option. The grant date fair value of the options taking into account the possibility that the director may decide to stop saving is £2.85 per option.

The share-based payment expense for the first year is £95 ($£2.85 \times 100 \times 1/3$).

During the second year the director decides to stop saving. As the decision is within the control of one of the parties to the transaction, the failure to meet the condition is accounted for as a cancellation in accordance with IFRS 2.28A.

The share-based payment expense for the second year is therefore:

£190 ($£2.85 \times 100 - £95$).

Summary of treatment for various conditions

The following table, which follows paragraph IG24 of the amended standard, illustrates the accounting treatment for various types of condition.

Summary of conditions that determine whether a counterparty receives an equity instrument granted						
	VESTING CONDITIONS			NON-VESTING CONDITIONS		
	Service conditions	Performance conditions		Neither the entity nor the counterparty can choose whether the condition is met	Counterparty can choose whether to meet the condition	Entity can choose whether to meet the condition
		Performance conditions that are market conditions	Other performance conditions			
Example conditions	Requirement to remain in service for three years	Target based on the market price of the entity's equity instruments	Target based on a successful initial public offering with a specified service requirement	Target based on a commodity index	Paying contributions towards the exercise price of a share-based payment	Continuation of the plan by the entity
Include in grant-date fair value?	No	Yes	No	Yes	Yes	Yes(a)
Accounting treatment if the condition is not met after the grant date and during the vesting period	Forfeiture The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (para 19)	No change to accounting The entity continues to recognise the expense over the remainder of the vesting period. (para 21)	Forfeiture The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (para 19)	No change to accounting The entity continues to recognise the expense over the remainder of the vesting period. (para 21A)	Cancellation The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (para 28A)	Cancellation The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (para 28A)
(a) In the calculation of the fair value of the share-based payment, the probability of continuation of the plan by the entity is assumed to be 100%.						

Changes to grant-date fair values – practical issues

It will be important to identify where non-vesting conditions exist. This will require an analysis of the terms and conditions of the share-based payment arrangement, specifically to identify conditions on which vesting depends that are neither performance nor service conditions. Such conditions will then need to be taken into account in re-estimating the grant date fair value of the equity instrument.

Input from valuation experts may be required to reassess grant-date fair values where share-based payments contain non-vesting conditions. This input may take time to obtain.

4.2 IAS 23 Borrowing Costs

2009 sees the introduction of a requirement to capitalise directly attributable borrowing costs under IAS 23 *Borrowing Costs* (Revised 2007).

The highlights

- Borrowing costs directly attributable to acquisition or construction of assets must be capitalised during the construction period
- Expensing all borrowing costs is no longer permitted
- The revised standard applies prospectively
- Borrowing costs capitalised may be on borrowings specific to an asset or an allocation of general borrowing costs
- Companies will need to ensure their systems capture relevant key data

The revised IAS 23 applies to accounting periods beginning on or after 1 January 2009. The previous version of IAS 23 allowed a choice of treatment: the benchmark treatment was to recognise borrowing costs as an expense, and the allowed alternative treatment was to capitalise eligible borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset. The revised IAS 23 does not permit a choice and capitalisation of borrowing costs will therefore become mandatory.

IAS 23 (Revised) will represent a change in accounting policy for many entities, which have previously followed a policy of expensing borrowing costs. The change in policy, however, is applied prospectively to borrowing costs incurred in relation to qualifying expenditure for which the commencement date for capitalisation is on or after the standard's effective date. In this context, the standard's effective date is the first day of the entity's first accounting period to which the revised standard applies. For example, where an entity prepares accounts to 31 March annually, IAS 23 (Revised) will apply for the period commencing 1 April 2009, which will be the standard's effective date for that entity. Thus, where the commencement date for capitalisation of borrowing costs for a particular asset is prior to the standard's effective date for the entity, the revised standard will not apply. In those circumstances, an entity will continue to expense borrowing costs as incurred on the qualifying asset, where that was the entity's accounting policy under the old IAS 23.

An entity that had previously expensed borrowing costs will therefore need only to apply the revised standard to new assets. However, entities may elect to designate an earlier date from which to apply the revised standard.

Key definitions

In order to apply the standard, three key terms need to be understood. They are 'borrowing costs,' 'directly attributable' and 'qualifying asset.'

Borrowing costs

Borrowing costs are interest and other costs which an entity incurs in connection with the borrowing of funds that are directly attributable to the acquisition, construction or production of a qualifying asset. They can relate to borrowings that were incurred specifically for the qualifying asset or general funds out of which the qualifying asset was purchased.

IAS 23 (Revised) gives examples of borrowing costs, including:

- finance lease finance charges

- exchange differences on foreign currency borrowings to the extent that they are regarded as adjustments to interest cost
- interest calculated under the IAS 39 *Financial Instruments: Recognition and Measurement* effective interest method.

Directly attributable

Borrowing costs need to be directly attributable to the construction of the qualifying asset, which means they are costs which would have been avoided had the expenditure on the qualifying asset not been incurred.

Qualifying assets

Qualifying assets are those assets that necessarily take a substantial period of time to get ready for use or sale. The standard gives examples of possible qualifying assets, such as:

- inventory
- property, plant and equipment
- intangible assets
- investment property.

The standard does not give any guidance on what a 'substantial period of time' might be; thus judgement may be required, particularly in less clear-cut situations. However, in many cases the period of time to get an asset ready will not be substantial and thus capitalisation of borrowing costs will not be required.

Commencement date for capitalising borrowing costs

It is important, especially for entities that have not previously had a policy of capitalising borrowing costs, to identify the date on which an entity shall begin to capitalise such costs as part of the cost of the qualifying asset. That is the date on which the entity first meets all of the following conditions:

- It incurs expenditure for the asset
- It incurs borrowing costs
- It undertakes activities that are necessary to prepare the asset for its intended use or sale

Thus, borrowing costs incurred prior to the commencement date for capitalisation (even where the borrowing relates to a qualifying asset) as determined by the three conditions set out above, will be expensed through profit or loss.

Capitalisation period for borrowing costs

Borrowing costs are capitalised only during specified time periods. This is effectively during the period from when activities necessary to ready the assets for their intended use or sale have begun (subject to borrowing costs being incurred at that point) until the point at which activities to ready assets for their intended use or sale are substantially complete.

Particular care needs to be taken where the qualifying asset consists of several parts. Where each part is capable of being used individually, then it is when each part is substantially complete that will be relevant for determining the end of the capitalisation period for that part and not the point at which all parts are substantially complete.

Designating an earlier effective date

The standard is applied prospectively to borrowing costs for which the commencement date for capitalisation is on or after the revised standard's effective date. This means that a policy

of capitalisation is applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after that date.

However, an entity that has not previously applied a policy of capitalising borrowing costs may designate any date before the effective date and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that earlier designated date.

Directly attributable borrowing costs

Where borrowings are specific to the qualifying asset, the calculation of the directly attributable borrowing costs is often straightforward, as the amount capitalised will simply reflect the borrowing costs incurred on the borrowings during the capitalisation period as outlined above. However the amount capitalised will be reduced by any interest which is earned from temporarily investing surplus borrowings during that period.

Where general borrowings are used to fund the construction of a qualifying asset, the calculations, whilst not complex, are more cumbersome. IAS 23 requires the calculation of a capitalisation rate which is then applied to the expenditure incurred on the qualifying asset to determine the amount to be capitalised.

This involves calculating, in respect of the capitalisation period, the weighted average carrying amount of the qualifying asset, the weighted average borrowings and the borrowing costs. A capitalisation rate is then established by dividing the borrowing costs by the weighted average borrowings for the period. The capitalisation rate is then applied to the weighted average carrying amount of the qualifying asset for the period to determine the amount of borrowing costs to be capitalised.

Ultimately the value of the directly attributable borrowing cost may prove to be insignificant. However unless it is immediately obvious that is the case, at least some preliminary calculations will be needed to establish this.

Group situations

There can be further complications in determining directly attributable borrowing costs in group situations. For example, group entities may lend to each other, in which case the capitalisation of borrowing costs will be relevant in preparing the accounts of an individual group entity but intra-group borrowing costs will be eliminated on consolidation in the group accounts. Another aspect is where group borrowings are managed centrally such that a specific borrowing rate for an individual group entity is not immediately evident.

Can notional borrowing costs be capitalised?

In short, no. Some entities do not need to fund the construction of qualifying assets through external borrowings and are able to use their own cash reserves. Such entities may therefore seek to capitalise a notional borrowing cost, with a corresponding credit recognised in profit or loss, to reflect the opportunity cost of earnings foregone on funds that might otherwise have been invested. This treatment is not permitted.

What needs to be done now to prepare for IAS 23 (Revised)?

The good news is that the revised standard applies prospectively. This means that it will not be necessary to calculate directly attributable borrowing costs on qualifying assets that, for example, are already in the course of construction on the standard's effective date, unless the company designates an earlier date from which to apply the standard. However if IAS 23 (Revised) is likely to affect your business then you will need to be able to identify and calculate the relevant amount of borrowing cost attributable to qualifying assets, which in

the case of general borrowings may require data to be monitored and allocations determined.

Where can I find further guidance?

For further guidance on the revised IAS 23, please ask for the Grant Thornton International guide to IAS 23 *Capitalisation of borrowing costs – From theory to practice*.

4.3 Expanded financial instruments disclosures

Important changes to disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* are effective for annual periods beginning on or after 1 January 2009.

The highlights

- Action will be needed to gather information and meet new disclosure requirements
- A three-level hierarchy for fair value disclosures is introduced
- Fair value disclosure requirements are expanded significantly, in particular where financial assets or financial liabilities are carried at fair values not based on observable market data
- Liquidity risk disclosures, including maturity analysis of financial liabilities, will change, in particular for derivative financial liabilities

Why change IFRS 7?

The IASB issued *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7) in 2009. The aims of the amendments are to:

- explain more clearly how entities determine the fair value of their financial instruments
- improve the disclosure of liquidity risk.

The amendments are part of the IASB's response to the credit crisis. In the first year of application, an entity need not provide comparative information in respect of the new requirements. Earlier application is permitted.

Fair value measurement disclosures

The three-level fair value hierarchy

In order to improve the disclosure of how entities measure the fair value of their financial instruments, the amendments introduce a fair value hierarchy, similar (but not identical) to that required under US GAAP.

The fair value hierarchy consists of the following three levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The disclosures required

For financial instruments within the scope of IFRS 7 that are measured at fair value in the statement of financial position, an entity shall disclose the following for each class of financial instruments:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety
- any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers
- for fair value measurements in Level 3 of the hierarchy, a reconciliation from the beginning balances to the ending balances. As well as highlighting purchases, sales, and gains and losses, this reconciliation will identify transfers into or out of Level 3 and the reasons for those transfers.

In addition, for any fair value measurements in Level 3 where changing one or more inputs to reasonably possible alternative assumptions would change fair value significantly, entities are required to disclose that fact and the effect of those changes.

The quantitative disclosures are to be provided in a tabular format unless another format is more appropriate. Examples have been added to the Implementation Guidance section of IFRS 7 to illustrate some possible ways of disclosing the additional information required.

Determination of hierarchy level

The determination of which of the levels in the fair value hierarchy into which an asset or liability is categorised is based on the lowest level input that is significant to the fair value measurement of the instrument.

Assessing whether a particular input to the fair value measurement is significant may require judgement. The amendments make clear that when the fair value of an instrument is measured using some observable inputs, but these inputs require significant adjustment based on unobservable inputs, that fair value measurement should be categorised in Level 3 of the hierarchy.

Liquidity risk disclosures

The second part of the amendments to IFRS 7 improves the liquidity risk disclosures required by IFRS 7.39.

In accordance with the amendments an entity discloses:

- (a) a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities
- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows
- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The most important change compared to the previous IFRS 7 liquidity risk disclosures relates to derivative financial liabilities. Under the previous version of IFRS 7, entities were required to disclose a quantitative maturity analysis for all derivative financial liabilities according to their remaining contractual maturities. The change is a response to comments that the requirement to provide disclosures based on the remaining contractual maturities was difficult to apply for some derivative financial liabilities and did not always result in information that reflects how many entities manage liquidity risk for such instruments. As a result, the amendments to IFRS 7 retain the requirement to disclose the remaining

contractual maturities of derivative financial liabilities only where the information is essential for an understanding of the timing of the cash flows.

Where can I find further guidance?

An updated edition of the Grant Thornton International guide 'Financial Instruments on Display' will be issued in the second half of 2009.

5 Other IFRS developments

5.1 Introduction

This section looks at changes to IFRS for periods commencing on or after 1 January 2009 that are less pervasive in their impact than those covered in Sections 2, 3 and 4.

Nevertheless, where these changes are relevant to a particular company, their impact could still be significant.

Highlights

- Companies may need to change their treatment of low-interest-rate government loans, advertising and promotional expenditure and property under construction for future use as investment property (Section 5.2)
- Some puttable instruments and obligations arising only on liquidation are reclassified from liabilities to equity (Section 5.3)
- Reclassification of non-derivative financial assets from held-for-trading or available-for-sale categories to loans and receivables is permitted in limited cases (Section 5.4)
- Reassessment of embedded derivatives is required when the reclassification option is taken (Section 5.5)
- Treatment of investments in subsidiaries, associates and jointly controlled entities in the parent's separate financial statements is simplified, easing the parent's transition to IFRS and reducing the impact of dividend traps (Section 5.6)

5.2 Improvements to IFRSs

In 2008, the IASB published *Improvements to IFRSs* which makes mostly minor amendments to a number of International Financial Reporting Standards (IFRSs). Some of the more significant changes are summarised below and apply for periods commencing on or after 1 January 2009.

Standard affected	Issue	Summary of change
IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Government loans with a below-market rate of interest	Amendment to require that the benefit of a government loan with a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial carrying value of the loan determined in accordance with IAS 39. Previously, IAS 20 had stated that no interest should be imputed for such a loan. This amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009, though earlier application is permitted.

Standard affected	Issue	Summary of change
IAS 38 <i>Intangible Assets</i>	Advertising and promotional activities	Amendments to clarify when an entity can recognise a prepayment asset, including for advertising or promotional expenditure. In the case of supply of goods, the entity recognises such expenditure as an expense when it has a right to access the goods. For services, an expense is recognised on receiving the services. Some entities will need to 'expense' costs for promotional catalogues and similar items sooner than previously. This amendment applies retrospectively.
IAS 40 <i>Investment Property</i>	Investment property under construction or development	IAS 40.8 has been amended to bring property that is being constructed or developed for future use as an investment property within the scope of IAS 40 (the IAS 40 fair value model may therefore be applied). Previously IAS 16 applied to such property until completion. The amendments apply prospectively for annual periods beginning on or after 1 January 2009. Application to investment property under construction from any date before 1 January 2009 is permitted provided that the fair values of investment properties under construction were determined at those dates. Earlier application is permitted.

Further details of the IASB improvements are given in Appendix B.

5.3 Puttable financial instruments and obligations arising on liquidation

In 2008, the IASB published Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*. The amendment means that some financial instruments that were classified as liabilities under the previous version of IAS 32 will be treated as equity instruments in the future. It affects instruments that:

- the holder is entitled to redeem (referred to as 'puttable instruments'), and
- impose on the entity an obligation to deliver a pro rata share of the net assets of the entity only on liquidation.

In very limited cases, the impact of the amendment is to cause a reclassification to equity of instruments that were liabilities under IAS 32 prior to the amendment. However, the amendment is subject to significant restrictions which are summarised below. Due to those restrictions, it is unlikely to affect the existing IAS 32 classification in most cases.

The changes to IAS 32 and consequential amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after 1 January 2009. Earlier adoption is permitted. An early adopter of the amendment to IAS 32 must also early adopt the changes to IAS 1.

The amendments to IAS 32 are retrospective. This could have a significant effect on the financial statements presented as comparative information. For example, payments made in relation to instruments that were classified as liabilities will have been reported as a finance expense. If such instruments are reclassified as equity, those payments would be reclassified as equity items.

Instruments affected

The amendment affects only the issuer of a financial instrument. Two broad categories of instrument may be affected, ie puttable instruments and instruments imposing an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

Puttable instruments

A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. Such instruments were classified as liabilities under the previous version of IAS 32 because the entity has an obligation to transfer cash that it cannot avoid. The amended IAS 32 requires puttable instruments to be classified as equity if, and only if, all conditions set out in the amended standard are met. In summary, the following conditions apply:

- The instrument entitles the holder to a pro rata share of the entity's net assets on liquidation
- The instrument is part of a class of instruments that is subordinate to all other classes of instruments
- All financial instruments in this most subordinate class have identical features
- Apart from the put feature, the instrument must not include any other contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument itself)
- The issuer must have no other financial instrument or contract that has:
 - total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and
 - the effect of substantially restricting or fixing the residual return to the puttable instrument holders

These conditions are set out in full in IAS 32.16A-16B and are further explained in the Application Guidance.

Obligations arising only on liquidation

IAS 32 does not normally require an instrument to be classified as a liability solely on the grounds that it is repayable on liquidation. However, if liquidation is certain to occur and outside the control of the entity (for example, a limited life entity) or is uncertain but is at the option of the holder, the previous version of IAS 32 required liability classification. The amended IAS 32 requires that instruments with these liquidation obligations are classified as equity if all of the following conditions are met:

- The instrument entitles the holder to a pro rata share of the entity's net assets on liquidation
- The instrument is part of a class of instruments that is subordinate to all other classes of instruments
- All financial instruments in this most subordinate class have identical features
- The issuer must have no other financial instrument or contract that has:
 - total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and
 - the effect of substantially restricting or fixing the residual return to the puttable instrument holders

5.4 Reclassification of Financial Assets

Introduction

In October 2008, the IASB issued *Reclassification of Financial Assets – Amendments to IAS 39 Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* (the Amendments).

The Amendments are part of a series of steps the IASB has undertaken to respond to the credit crisis, and permit the reclassification of financial instruments in certain situations. The Amendments serve to reduce differences between IFRSs and US GAAP.

The Amendments to IAS 39 applied for reclassifications on or after 1 July 2008 and reclassifications were not permitted before that date. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

Summary of main changes

The Amendments permit an entity to:

- reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances
- transfer from the available for sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if it had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

Additional disclosure requirements have been included in IFRS 7 to provide information to readers of the accounts where an entity opts to reclassify financial assets under the Amendments to IAS 39.

The amendments introduce into IFRSs the same possibility of reclassifications that is already permitted under US GAAP, so removing this potential disadvantage for IFRS preparers.

The Amendments to IAS 39

Reclassification of financial assets out of the fair value through profit or loss category

Under the Amendments to IAS 39, an entity may reclassify some financial assets out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term (notwithstanding that the financial asset in concern

may have originally been acquired or incurred principally for the purpose of selling or repurchasing it in the near term).

Certain types of financial instruments that were originally included in the fair value through profit or loss category cannot be reclassified under the Amendments. These are:

- derivatives as long as they are held or issued
- financial instruments that were designated by the entity upon initial recognition as at fair value through profit or loss.

The financial assets previously classified in the fair value through profit or loss category which can be reclassified under the Amendments are as follows:

- Financial assets that would have met the definition of loans and receivables (if they had not been required to be classified as held for trading at initial recognition)
 - where no longer held for purpose of selling or repurchasing it in the near term, such a financial asset may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.
- Other financial assets
 - where a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, it may in "rare circumstances" (see below) be reclassified out of the fair value through profit or loss category.

The Amendments do not discuss what type of circumstances would constitute rare circumstances. The IASB's press release announcing the publication of the Amendments states however that "the deterioration of the world's financial markets that has occurred during the third quarter of [2008] is a possible example of rare circumstances cited in these IFRS amendments and therefore justifies its immediate publication."

Where reclassifications are made due to rare circumstances, the Amendments to IFRS 7 require disclosure of the facts and circumstances that indicated the situation was rare.

Reclassification of financial assets out of the available-for-sale category

Under the Amendments, a financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Effect of reclassification into the loans and receivables category

Where an entity reclassifies a financial asset into the loans and receivables category, it shall reclassify the financial asset at its fair value on the date of reclassification.

Where such a financial asset has previously been classified as held for trading, any gain or loss already recognised in profit or loss shall not be reversed. The fair value on the date of reclassification becomes its new cost or amortised cost, as applicable.

Where such a financial asset has previously been classified as available-for-sale, the fair value on the date of reclassification similarly becomes its new cost or amortised cost, as applicable. Any previous gain or loss on the asset that has been recognised in other comprehensive income under IAS 39.55 is to be accounted for in accordance with IAS 39.54.

This means that in the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method. In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognised in profit or loss when the financial asset is sold or otherwise disposed of.

Impact on effective interest rate

The Amendments add text to the Application Guidance in the Standard dealing with the impact of a revision of estimates of payments or receipts on use of the effective interest rate (IAS 39.AG8). The text that has been added notes that if a financial asset is reclassified in accordance with the Amendments and the entity subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

The Amendments to IFRS 7

Additional disclosure requirements have been added to IFRS 7 in respect of financial assets that have been reclassified as a result of the Amendments to IAS 39. Entities shall apply these from 1 July 2008.

Amongst other things, disclosure is required of the amount reclassified into and out of each category as a result of the Amendments and the reason for the reclassifications, particularly where rare circumstances are given as the reason for a reclassification.

5.5 Embedded Derivatives – Amendments to IAS 39 and IFRIC 9

In March 2009 the IASB published *Embedded Derivatives – Amendments to IFRIC 9 and IAS 39* (the Amendment). The Amendment is effective for annual periods ending on or after 30 June 2009. Retrospective application is required.

The Amendment is consequential upon the changes made to IAS 39 *Financial Instruments: Recognition and Measurement* in 2008 permitting the reclassification of non-derivative financial assets out of the fair value through profit or loss category in some circumstances (see Section 5.4). The Amendment clarifies several points:

- If an entity transfers a financial asset out of the fair value through profit or loss category in accordance with the previous IAS 39 amendments, it must assess whether the financial asset contains an embedded derivative that is required to be separated from the host contract
- This assessment is based on circumstances that existed when the entity first became party to the contract (not the date of the reclassification)
- If the financial asset contains an embedded derivative that is required to be separated, but the entity is unable to measure the derivative reliably, it is prohibited from reclassifying the asset

5.6 Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate

In 2008, the IASB issued amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*, entitled *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* ('the Amendments'). The Amendments are effective for annual periods beginning on or after 1 January 2009.

The Amendments affect only the separate financial statements of a parent entity or investor. The main changes are:

- the introduction of a 'deemed cost' exemption into IFRS 1 for first-time adopters of IFRS when measuring the cost of an investment in a subsidiary, jointly controlled entity or associate
- the removal of IAS 27's requirement to deduct pre-acquisition dividends from the cost of an investment in subsidiary, jointly controlled entity or associate in profit or loss in the separate financial statements of the investor entity
- new requirements on accounting for the formation of a new parent.

A brief discussion of each of these changes follows.

Deemed cost exemption

The Amendments allow an entity that is a first-time adopter of IFRS to use a 'deemed cost' when measuring an investment in a subsidiary, jointly controlled entity or associate on transition to IFRS. This deemed cost can be determined using either fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* at the entity's date of transition to IFRS or a previous GAAP carrying amount at that date. The latter option may be attractive to UK companies seeking not to restrict their ability to make distributions in the future and also report a low cost of investment under UK GAAP, perhaps due to merger relief.

An entity is able to choose whether to use the deemed cost exemption on an item-by-item basis for each investment in a subsidiary, jointly controlled entity or associate.

Pre-acquisition dividends in the separate financial statements of the investor entity

The Amendments delete the definition of the 'cost method' in IAS 27. Cost (or, alternatively, IAS 39) will still be used for measuring investments in subsidiaries in the separate financial statements of the parent but that term will have its usual meaning. The same change applies to investments in jointly controlled entities or associates. More specifically, dividends received out of the investee's pre-acquisition profits will no longer be deducted from cost in the parent or investor's separate financial statements. Instead, dividends receivable will be recorded as income but may also give rise to impairment of the investment. IAS 36 *Impairment of Assets* has been amended to include the following as specific indicators that the investment may be impaired:

- the carrying amount of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of the investor entity exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill
- a dividend receivable or received exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.

Previously, a parent entity recognised income from the investment only to the extent that it received distributions from accumulated profits of an investee arising after the date of acquisition. Distributions received in excess of such profits were regarded as a recovery of the investment and were recognised as a reduction of the cost of the investment. This requirement has given rise to practical problems in determining whether dividends relate to pre- or post-acquisition profits.

Formation of a new parent

The Amendments introduce new guidance on accounting when a parent reorganises the structure of its group by establishing a new entity as its parent and the interests of shareholders are not affected. In such a situation, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

6 New IFRIC interpretations

6.1 Impact of changes

The International Financial Reporting Interpretations Committee (IFRIC) has issued several new Interpretations that may have a significant impact in particular cases in 2009.

Highlights

- Companies that offer customer loyalty incentive programmes may need to revise their accounting policies and defer part of their revenue (Section 6.2)
- Companies that sell properties before construction is complete, eg sales 'off plan,' may need to change their revenue recognition policies (Section 6.3)
- Treatment of hedges of net investments in foreign entities will need to be reviewed as IFRIC 16 seeks to reduce inconsistencies in practice (Section 6.4)
- Companies that receive transfers of assets from customers, eg utilities, will need to reassess their asset and revenue recognition policies (Section 6.5)

6.2 IFRIC 13 Customer Loyalty Programmes

IFRIC 13 *Customer Loyalty Programmes* was issued in 2007. The effective date stated in IFRIC 13 is annual periods commencing on or after 1 July 2008. Full retrospective application is required. However, when IFRIC 13 was adopted by the European Union, the adoption regulation specified an effective date of annual periods commencing after 31 December 2008, though earlier adoption is permitted.

IFRIC 13 deals with customer loyalty schemes that grant award credits (such as 'points' or 'miles') that the customers may redeem in the future for free or discounted goods or services ('awards'). The interpretation does not deal with award credits that are granted freely outside a sales transaction. It applies whether the entity provides awards to customers directly or through a third party, such as an airline or other retailer.

Customer loyalty programmes are widespread in a broad range of industries and differing accounting treatments have emerged. Some entities have previously recognised the full amount of consideration received for the initial sale transaction and provided for the estimated costs of supplying awards (applying IAS 18.19); others have allocated an amount of the consideration received for the initial sale to the award credits and deferred recognition of this revenue (applying IAS 18.13).

Against this background, the interpretation clarifies how IAS 18 *Revenue* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be applied in accounting for customer loyalty award credits. The interpretation focuses on accounting by the entity that grants such award credits.

Scope of IFRIC 13

IFRIC 13 applies to all customer loyalty award credits ('award credits') that an entity grants to its customers as part of a sales transaction. This includes situations in which such credits are granted to customers as a result of:

- sales of goods
- rendering of services
- the use of entity assets.

Examples**The following schemes are within the scope of IFRIC 13**

A grocery retailer operates a customer loyalty programme. It grants loyalty points to its programme members whenever they spend a specified amount in one of its stores. The points can be redeemed for further groceries in its stores.

A book retailer participates in a customer loyalty programme operated by an airline. It grants loyalty air miles to its programme members whenever they spend a specified amount in one of its stores. The points can be redeemed for air travel with the airline.

The following scheme is outside the scope of IFRIC 13

A restaurant distributes 'money-off' vouchers. It grants vouchers free of charge to people walking on the streets near to the restaurant. The vouchers can be redeemed for discounted meals in the restaurant.

Measurement of award credits at fair value

IFRIC 13.5 requires that credits should be recognised as a separately identifiable component of the sales transaction in accordance with IAS 18.13. An amount of revenue is allocated to any award credits the entity grants and is accounted for separately.

Award credits granted by the entity should be measured by reference to their fair value, ie the amount for which they could be sold separately. However, fair value is often not directly observable because the award credits are granted as part of a larger sale transaction and cannot be sold separately (IFRIC 13.BC12). Consequently, judgement is required to estimate the amount of revenue allocated to the award credits and to the other sale components. IFRIC 13 includes some application guidance that highlights possible estimation techniques.

Revenue recognition

The extent and the timing of revenue recognition in respect of the award credits depends on whether the awards will be supplied by the entity itself or by a third party. When a third party supplies the awards, either by default or at the customer's choice, the entity needs to assess whether the consideration received and receivable for award credits is collected on its own account (ie as a principal to the transaction) or on behalf of that third party (ie as an agent).

Entity supplies awards itself

If the entity will supply the awards itself, revenue is recognised when award credits are redeemed and the entity fulfils its supply obligation. The amount of revenue is calculated based on the number of award credits redeemed relative to the total number of credits expected to be redeemed (IFRIC 13.7).

$$\text{Revenue} = \text{Fair value of credits} \times \frac{\text{number of award credits redeemed}}{\text{total award credits granted and expected to be redeemed}}$$

Third party supplies awards, entity acts as an agent

If the entity collects the consideration for award credits on behalf of a third party that will supply the awards, the revenue recognised is the net amount retained on its own account (ie its commission). This revenue is measured as the net amount of the consideration allocated to the award credits and the amount payable to the third party for supplying the awards. Revenue is recognised only when the third party is obliged to supply the awards and is entitled to receive the consideration for doing so (IFRIC 13.8).

$$\text{Revenue} = \text{Fair value of award credits} \times \text{Number of award credits granted} - \text{Amount payable to third party}$$

Third party supplies awards, entity acts as a principal

If the entity acts as a principal and collects the consideration on its own account for award credits that will be redeemed by a third party, revenue is measured as the gross consideration allocated to the credits. Revenue is recognised when the entity has fulfilled its obligations in respect of the awards.

Recognition of unavoidable costs of meeting the obligation

The unavoidable costs for providing the awards to customers may exceed the consideration received and receivable for the awards, eg when the award credit redemption rate exceeds the entity's original expectations. In such circumstances the entity has onerous contracts and recognises a liability in accordance with IAS 37 (IFRIC 13.9).

Example

This example, which is based on an example in the appendix of IFRIC 13, further clarifies the accounting treatment of customer loyalty schemes.

Consideration for award credits collected on entity's own account, third party supplies awards

A retailer participates in a customer loyalty programme operated by an airline. Programme members can redeem the award credits for travel with the airline, subject to availability. The retailer pays the airline CU 0.009 for each award credit. The entity collects the consideration on its own account.

In one period, the retailer sells goods totalling CU1 million and grants 1 million related award credits. The retailer estimates the fair value of each award credit is CU0.01 and therefore allocates $1 \text{ million} \times \text{CU}0.01 = \text{CU}10,000$ of the consideration it has received from the sales of its goods to the award credits.

Having granted the award credits, the retailer has no further obligations to the customer. The airline is obliged to supply the awards and is entitled to receive consideration for doing so. The retailer recognises revenue from the points when it sells the goods. It recognises its revenue as the gross CU10,000 allocated to the award credits and separately recognises the CU9,000 paid or payable to the airline as an expense.

Key implementation issues

Some entities that operate customer loyalty schemes may have to change their accounting policies in response to IFRIC 13. Key issues to consider may be summarised as follows:

- The treatment required by IFRIC 13 may be different from some existing accounting policies. Some of the approaches seen in practice include revenue recognition in full and providing for future cost to redeem awards as a non-financial liability. Changes in accounting policy shall be accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IFRIC 13.11)
- Fair value of award credits granted in a customer loyalty scheme will have to be determined. A suitable estimation technique needs to be developed where the fair value is not directly observable. See IFRIC 13 application guidance
- Any amount allocated to award credits needs to be accounted for as a separate revenue component in accordance with IAS 18.13. Revenue is to be deferred until the entity has met its obligations in respect of the award credits it has granted. The extent and timing of revenue recognition needs to be assessed based on the specific conditions of the customer loyalty scheme
- The entity needs to monitor continuously redemption rates, timing of redemptions, the value and cost of awards supplied in exchange for award credits to provide a reliable basis for measuring and recognising revenue
- The entity also needs to monitor whether any unavoidable costs are expected to exceed the consideration received and receivable for awards. This may be caused by a change of estimate of awards expected to be redeemed or a change in cost of providing awards. Any unavoidable costs to supply awards in excess of consideration received or receivable should be recognised as a liability for onerous contracts under IAS 37
- Prior to its application, the entity will need to assess the possible impact this interpretation will have on its financial statements in the period of initial application and disclose this in accordance with IAS 8.30

6.3 IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 *Agreements for the Construction of Real Estate* was issued in 2008. Its publication was prompted by the desire to standardise accounting practice for agreements to sell real estate before construction is complete. Such arrangements include 'off plan' sales by real estate developers of apartments or houses (sales before completion of the apartments or houses). Standardisation is considered necessary because two different views have arisen as to the applicable revenue recognition standard:

- Some have considered off-plan sale agreements to be construction contracts and accounted for them under IAS 11 *Construction Contracts* with revenue being recognised by reference to the stage of completion as construction progressed
- Others have accounted for them as sales of goods under IAS 18 *Revenue*, with revenue being recorded when control and the risks and rewards of ownership had been transferred to the buyer (typically when the unit is ready for occupation and handed over to the buyer).

IFRIC 15 must be applied for annual periods commencing on or after 1 January 2009. Earlier application is permitted.

Issues addressed

IFRIC 15 notes that an agreement for the delivery of goods or services in addition to the construction of real estate may need to be split into identifiable components, which are accounted for separately. The accounting for the real estate component then follows the guidance in IFRIC 15.

IFRIC 15 then addresses two issues concerning agreements for real estate sales before construction is complete:

- Is the agreement within the scope of IAS 11 or IAS 18?
- When should revenue from the construction of real estate be recognised?

Consensus

IFRIC 15 states that the answer to these two questions will depend on the terms of the agreement and the surrounding facts and circumstances, and will require the exercise of judgement.

Does IAS 11 apply?

IFRIC 15 states that IAS 11 will be applied where an agreement for the construction of real estate meets the definition of a construction contract, ie 'a contract specifically negotiated for the construction of an asset or a combination of assets...' (IAS 11.3). IFRIC 15 explains that this definition will be met when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (irrespective of whether the entity exercises that ability or not).

If IAS 11 applies revenue should be recognised by reference to the stage of completion of the construction.

An agreement in which construction could take place independently of the agreement and where buyers have only limited ability to influence the design of the real estates, or can specify only minor variations to the basic design, will not meet the definition of a construction contract. It should therefore be accounted for under IAS 18.

Where the agreement is within the scope of IAS 18

Where an agreement does not meet the definition of a construction contract and therefore falls within the scope of IAS 18, it is necessary to consider whether the agreement is for the rendering of services or for the sale of goods.

IFRIC 15 suggests that an agreement may be for the rendering of services if the supplier does not provide the construction materials. If the supplier is required to provide both services and materials to fulfil its obligations, the agreement is for the sale of goods.

Agreement for the rendering of services

If the agreement is for the rendering of services (such as the provision of property management services) revenue should be recognised by reference to the stage of completion of the transaction in accordance with IAS 18.20. The pattern of revenue recognition is therefore consistent with IAS 11's requirements.

Agreement for the sale of goods

Where the agreement is for the sale of goods, then the revenue recognition criteria set out in IAS 18.14 apply. IAS 18.14 states that revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- the amount of revenue can be measured reliably

- it is probable that the economic benefits associated with the transaction will flow to the entity
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The key condition is that revenue is recognised only when control and the risks and rewards of ownership have transferred to the buyer.

In some cases control and the significant risks and rewards of ownership of the work in progress are continuously transferred to the buyer as construction progresses. If so, revenue should be recognised in accordance with the stage of completion of construction (subject to the other criteria set out in IAS 18.14 being met). The pattern of revenue recognition will then be broadly consistent with IAS 11. IFRIC 15 does not provide any further guidance on how to determine if control and risks and rewards are continuously transferred to the buyer. In practice, this is unusual, for example, for off-plan sale agreements of retail units.

More typically control and the significant risks and rewards of ownership of the real estate will transfer in entirety to the buyer at a single point in time (eg on completion or upon or after delivery of the real estate). IFRIC 15 specifies that in such a scenario, revenue will only be recognised when that point in time is reached (subject to the other criteria in IAS 18.14 being met).

6.4 IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* was issued in 2008. Foreign operations are operations (subsidiaries, associates, joint ventures or branches) whose activities are conducted in a currency other than the functional currency of the reporting entity. Investments in foreign operations create currency risk because exchange rate movements affect the reporting entity's functional currency equivalent of the foreign operation's net assets and results. The reporting entity might decide to hedge this currency risk by borrowing money in the foreign operation's functional currency or entering into foreign exchange contracts (for example).

IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires the reporting entity to translate the results and net assets of its foreign operations into its presentation currency (which need not be the same as its functional currency). Exchange differences arising are reported in other comprehensive income until the foreign operation is disposed of.

IAS 39 *Financial Instruments: Recognition and Measurement* permits, but does not require, the reporting entity to apply a form of hedge accounting (referred to as net investment hedge accounting) to its investments in foreign operations, provided certain strict conditions are met. Net investment hedge accounting operates in a similar way to cash flow hedge accounting. IFRIC 16 addresses various issues that have led to inconsistency in applying net investment hedge accounting in practice.

IFRIC 16 must be applied for annual periods commencing on or after 1 October 2008. Earlier application is permitted. On first adopting IFRIC 16, retrospective application is not required. If entities have designated a hedge accounting relationship that is no longer permissible, hedge accounting is discontinued prospectively (in accordance with IAS 39's requirements on discontinuing hedge accounting).

Issues addressed

The main issues addressed by IFRIC 16 are:

- the nature of the hedged risk
- the amount of the hedged item
- where in the group the hedging instrument may be held
- reclassifications from equity to profit or loss on disposal of the foreign operation.

Consensus**Nature of the hedged risk**

IFRIC 16 clarifies that currency risk eligible for net investment hedge accounting relates to exposure arising between the foreign operation's functional currency and the functional currency of the immediate, intermediate or ultimate parent entity. A higher level or ultimate parent may also designate a hedge based on exposures arising between the functional currencies of a foreign operation and an intermediate parent.

Translation risks, relating to exchange differences between foreign operation's functional currency and the reporting entity's presentation currency, are not eligible for hedge accounting.

Example: Functional and presentation currency

Parent entity P has a functional currency of Sterling (GBP) but presents its consolidated financial statements in euros. P has two subsidiaries E (euro functional currency) and J (Japanese Yen functional currency).

P may designate the following currency risks in a net investment hedge based on functional currencies:

- GBP to euro currency exposure relating to E
- GBP to Yen currency exposure relating to J

Because P uses euros as its presentation currency, currency translation risks also arise on:

- euro to GBP exchange differences on translation of P's financial statements
- euro to Yen exchange differences on translation of J's financial statements

Neither of these risks is eligible for hedge accounting. However, P can still designate based on the functional currency exposures relating to E and J, even though in E's case there will be no translation differences on consolidation.

The amount of the hedged item

The amount of the foreign operation's net assets eligible for designation as the hedged item cannot exceed the carrying value of those net assets in the parent entity's consolidated financial statements. If a lower-level (intermediate) parent applies hedge accounting for a net investment in a foreign operation, the amount of the foreign operation's net assets eligible for hedge accounting by a higher or ultimate parent entity is reduced accordingly. In other words, an exposure to currency risk on a net investment in a foreign operation cannot qualify for hedge accounting more than once.

Where in the group the hedging instrument may be held

IFRIC 16 clarifies that the availability of hedge accounting in the consolidated financial statements is not affected by which group entity holds the hedging instrument. The

designated hedging instrument (a derivative or non-derivative financial instrument) in a net investment hedge could therefore be held either by the parent itself or by another group entity.

Reclassifications from equity to profit or loss on disposal of the foreign operation

If the reporting entity disposes of its investment in the foreign operation, reclassifications from equity to profit and loss are required of:

- the cumulative foreign currency translation reserve recorded on consolidation of the foreign operation in accordance with IAS 21, and
- if net investment hedge accounting has been applied, the cumulative change in the fair value of the hedging instrument to the extent the hedge was an effective one. In accordance with IAS 39, this effective portion is recorded in other comprehensive income (equity). Any ineffective portion of the hedge is recognised immediately in profit and loss.

IFRIC 16 notes that the amount of the cumulative foreign currency translation reserve may differ depending on whether the reporting entity applies the 'direct' or 'step-by-step' method of consolidation. If the 'step-by-step' method is used, the foreign currency translation reserve relating to the foreign operation in question will be determined at the level of that foreign operation's immediate parent, rather than the ultimate parent. However, IFRIC 16 permits (as an accounting policy choice) the reporting entity to reclassify from equity the amount that would have been included in the foreign currency translation reserve if the direct method had been applied.

Further guidance

IFRIC 16 includes an Application Guidance section, setting out detailed examples of how to apply its requirements. These examples and the full text of IFRIC 16 should be studied carefully if net investment hedging is applied.

6.5 IFRIC 18 Transfers of Assets from Customers

Introduction

IFRIC 18 *Transfers of Assets from Customers* was issued in January 2009. It applies to the recipient of a transfer of property, plant and equipment from a customer where the item received must be used to connect the customer to a network and/or provide ongoing access to a supply of goods or services. In practice the recipients of such transfers tend to be companies in the utilities industry.

IFRIC 18 must be applied prospectively to transfers of assets received on or after 1 July 2009. Therefore, its application depends on the date of asset transfer rather than on the accounting period. Earlier application is permitted provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred.

IFRIC 18 was developed in response to divergent views on how to account for such transfers. The main issues to be addressed include:

- whether an asset should be recognised by the recipient (and, if so, the amount to be recognised)
- whether these transactions result in revenue for the recipient and, if so, the period over which revenue is recorded.

IFRIC 18 addresses situations such as those where a property developer constructs a water supply system for a new housing development and 'donates' the resulting asset to the water supply company (or pays the water supplier to undertake the construction) which in turn connects the houses to its network. In some jurisdictions the rights and obligations of the developer and the water supplier are set out in local law or regulation. In other cases such matters are negotiated by the two parties.

Scope of IFRIC 18

IFRIC 18 applies to agreements in which an entity receives an item of property, plant and equipment from a customer (see below) that the entity must then use to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes.

IFRIC 18 refers for convenience to the entity transferring the asset as the 'customer'. It notes however that the transferor of the asset will not always be the entity that will eventually have access to the supply. For example, in the example above, the donor is the property developer but services will be provided to the occupants of the houses.

IFRIC 18 does not apply to transfers that fall within the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* or IFRIC 12 *Service Concession Arrangements*.

Should an asset be recognised by the recipient?

IFRIC 18 requires that the recipient recognises an asset in respect of the transferred item if that item meets the definition of an asset as set out in the IASB Framework. The key consideration in applying that definition is whether the recipient controls the item in question.

At what amount?

If an asset is recognised, it is recorded at fair value on initial recognition.

Revenue recognition

IFRIC 18 considers that transfers within its scope that give rise to a recognised asset for the recipient are revenue generating transactions. This is on the grounds that Paragraph 12 of IAS 18 *Revenue* states that "when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue." The issue is then the period over which the revenue is recorded. IFRIC 18.14-20 provide guidance on this matter. In summary, the appropriate pattern of revenue recognition depends on the service or services that the recipient has agreed to provide to the customer. These might be:

- a connection service – recognise revenue when the connection is delivered
- ongoing access to a supply of goods and services – recognise revenue over the term specified in the agreement (or the useful life of the transferred asset if the agreement does not specify a term)
- both services – allocate revenue between the two service components then apply the revenue recognition criteria to each component.

Assessing the services being provided by the recipient

The timing of revenue recognition will be greatly affected by the assessment of which separately identifiable services the recipient has agreed to provide. Revenue would be

recognised much sooner if, for example, the assessment concludes that the only service is connection. IFRIC 18 provides brief but useful guidance in making this determination:

- If the customer receives value from the service connection and its fair value can be measured reliably this indicates that the connection is a separately identifiable service
- The pricing of the subsequent goods or services is also an important factor:
 - If the customer pays a lower price for the ongoing goods or services than would otherwise be charged, this indicates that the identifiable service is the ongoing access to goods and services
 - Conversely, if the recipient is obliged to provide the connection under the terms of its licence and the customer pays the same price as other customers that have not transferred assets, this indicates that the recipient is not providing the customer with ongoing access to a supply of goods and services

Cash contributions

Cash contributions that are within the scope of IFRIC 18 are accounted for as follows:

- The asset constructed by the developer is recorded at cost in accordance with IAS 16 *Property, Plant and Equipment*
- The cash received is recognised as revenue in a manner consistent with the above guidance and IAS 18 *Revenue*

7 UK GAAP changes

7.1 Introduction

Even where group accounts are prepared under IFRS, companies often retain UK GAAP for the parent's individual or subsidiaries' accounts. After several years of stability, UK GAAP sees some significant changes in 2009.

Highlights

- Related party disclosures have changed and parent companies are no longer completely exempt from disclosure in their individual accounts. Subsidiaries' exemptions have also changed (Section 7.2)
- Changes to share-based payment accounting to align with IFRS may require involvement of external valuers (Sections 7.3 and 4.1)
- Changes to IFRS make it easier for parent companies to move their individual accounts to IFRS, but significant issues remain (Section 7.4)

Some of the UK GAAP changes arise from the introduction of the Companies Act 2006, which is covered in Section 8, whereas others are the result of updating UK standards that are converged with IFRS. This section provides an overview of the main UK GAAP changes.

7.2 Related party disclosures

The UK Accounting Standards Board (ASB) has issued an amendment to FRS 8 *Related Party Disclosures*. This is to eliminate inconsistencies between FRS 8 and new statutory related party disclosure requirements set out in *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* made under the Companies Act 2006 (SI2008/410) (see also Section 8.4). The amendments to FRS 8 apply for accounting periods beginning on or after 6 April 2008, to tie in with the introduction of the Companies Act 2006 accounting changes. Early adoption is not permitted.

The ASB had intended replacing FRS 8 with a UK standard adopting the IASB's planned revised IAS 24 *Related Party Disclosures* (which will be consistent with legal requirements). However, the IASB's revised standard has been delayed: hence the need for a short-term fix to FRS 8.

The key changes to FRS 8 are to:

- replace the definition of related parties with the current IAS 24 definition (which is the one used in law) and the associated definition of key management personnel
- reduce the disclosure exemptions such that FRS 8 is consistent with exemptions given in law. The main practical effects of this are to:
 - remove the existing FRS 8 paragraph 3(b) exemption from disclosure by a parent company in its individual accounts where those accounts are presented with consolidated accounts
 - remove the existing FRS 8 paragraph 3(c) exemption for 90% subsidiaries from disclosing related party transactions with the group or investees of the group

- insert a new FRS 8 paragraph 3(c) under which the parent company and subsidiaries wholly owned by a member of the group are exempt from disclosing transactions between each other. Transactions between subsidiaries wholly owned by a member of the group are also exempt.

Note that the changes mean that the parent individually now needs to disclose all other related party transactions, including with non-wholly-owned subsidiaries and any other related parties, and that subsidiaries not wholly owned are no longer exempt. This will be a significant change for many groups where the parent company individual accounts are prepared under UK GAAP and the previous FRS 8 disclosure exemptions have been taken.

Even for wholly-owned subsidiaries, the exemptions now cover fewer transactions than previously. These changes apply to all related party transactions as defined in FRS 8, not just those covered by the law.

Revised definitions

Related party

The IAS 24.9 definition is brought into FRS 8 para 2.5, with minor editorial changes for consistency with other standards. The new definition of 'related party' as follows:

"A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in FRS 9 'Associates and Joint Ventures') of the entity;
- (c) the party is a joint venture in which the entity is a venturer (as defined in FRS 9 'Associates and Joint Ventures');
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a retirement benefit scheme for the benefit of employees of the entity, or of any entity that is a related party of the entity."

Though expressed in different words, the revised definition of related parties is similar to the old FRS 8 definition except that there is no direct equivalent to the old FRS 8 paragraph 2.5(a)(iv), which stated that parties are related if "the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests." Thus, the new definition is slightly narrower than the old.

Key management

As the related party definition refers to 'key management personnel', the FRS 8 definition of 'key management' has also been replaced for consistency with IAS 24. The FRS 8 para 2.3 definition of key management personnel is now as follows:

"Those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

This is slightly different to the previous definition of 'key management' in FRS 8, which did not include the reference to "directly or indirectly." Thus, the new definition is potentially slightly broader than the old.

Summary of the new statutory requirements

Para 72, Sch 1, SI 2008/410, includes a new provision relating to UK GAAP accounts stating that the particulars of transactions which the company has entered into with related parties (as defined in IFRS) may be given, and must be given if such transactions are material and have not been concluded under normal market conditions. This requirement stems from amendments to the EC 4th Directive. The particulars must include:

- the amount of such transactions
- the nature of the related party relationship
- other information about the transactions necessary for an understanding of the financial position of the company.

The legislation permits transactions to be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the company. There is also an exemption for transactions between members of a group provided that any subsidiary which is a party to the transaction is wholly owned.

The European Commission has confirmed that disclosure of all related party transactions, whether concluded on normal market conditions or not, meets the Directive's requirements. Hence, compliance with the amended FRS 8 (which, as previously, does not distinguish between transactions on market and non-market terms) will achieve compliance with the legal requirements.

7.3 Changes to requirements converged with IFRS**FRS 20 Share-based Payment**

Consistent with the Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*, the ASB has revised the equivalent UK GAAP standard FRS 20. For details of these changes, see Section 4.1.

Financial instruments

The ASB has updated FRS 26 *Financial Instruments: Recognition and Measurement* and FRS 29 *Financial Instruments: Disclosures* for consistency with the amendments to the equivalent IFRS standards IAS 39 and IFRS 7 relating to reclassification of financial assets. See Section 5.4 for more on these changes to IFRS.

Note that FRS 26 and related standards are mandatory in UK GAAP only for quoted (principally full list) companies and other companies that elect to apply the statutory fair value measurement provisions relating to financial instruments.

Where companies apply FRS 26, they will also need to apply UTTF Abstract 46 (IFRIC 16) *Hedges of a Net Investment in a Foreign Operation* (see Section 6.4).

The ASB has issued an amendment to FRS 25 *Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation*. This is to maintain consistency with the amendments to IAS 32 *Financial Instruments: Presentation*, covered in Section 5.3. The mandatory effective date for this UK GAAP amendment is annual periods commencing on or after 1 January 2010. However, early adoption is permitted for annual periods commencing on or after 1 January 2009, which may be useful to maintain consistency in situations where the parent's individual accounts are prepared under UK GAAP but the group accounts are under IFRS.

7.4 Parent accounts under IFRS

Many UK companies that now prepare their group accounts under IFRS have elected to retain UK GAAP for the parent's individual accounts (referred to as separate financial statements in IFRS). A key issue has been the treatment of investments in subsidiaries, associates and joint ventures in the parent's separate financial statements, where restatement under IFRS has often been problematic and complications would have arisen regarding distributable profits.

Changes to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* from 2009 will mitigate these issues. These changes are discussed in more detail in Section 5.6.

The decision to move the parent's separate financial statements to IFRS should not be taken lightly. Although the changes referred to above may facilitate such a move, other factors should also be taken into account including the following:

- The parent company will need to prepare a cash flow statement under IAS 7 *Statement of Cash Flows*; there is no exemption equivalent to that available under FRS 1
- The extensive disclosures on financial instruments under IFRS 7 *Financial Instruments: Disclosures* are required for companies individually
- There are no exemptions from disclosure of related party transactions in IAS 24 *Related Party Disclosures* (though changes to UK GAAP discussed in Section 7.2 reduce the significance of this issue)
- Where the group has a defined benefit pension scheme, individual group companies usually account for them as defined contribution schemes under FRS 17 *Retirement Benefits*. Under IAS 19 *Employee Benefits*, if the pension scheme asset or liability cannot be split between the companies in the group, the entire asset or deficit must be shown on the statement of financial position (balance sheet) of the sponsoring company, this is often the parent company. This can have a consequential effect on the distributable profits of the parent company
- Parents and subsidiaries that guarantee the bank borrowings of other group members generally make no accounting entries under UK GAAP, unless they are within the scope of FRS 26 *Financial Instruments: Recognition and Measurement*. Under IAS 39 *Financial Instruments: Recognition and Measurement*, they have to account for such guarantees at fair values unless the issuer of such contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts
- The capital maintenance provisions of the Companies Act will remain the same irrespective of whether IFRS or UK GAAP accounts are prepared. In view of IFRSs' propensity for producing volatile results, certainty of availability of distributable profits may generally be higher under UK GAAP

7.5 ASB Improvements Project

The ASB has issued an FRS of *Improvements to Financial Reporting Standards*. This is principally to maintain consistency with IFRS where UK standards have been converged. In addition, the ASB has made other minor amendments to update and correct standards. Two points to note are:

- The change to FRS 7 *Fair Values in Acquisition Accounting* on contingent consideration to be satisfied in shares clarifies that amounts attributable to that consideration will need to be allocated between equity and liabilities in accordance with FRS 25 *Financial Instruments: Presentation*
- The amendment to FRS 21 *Events After the Balance Sheet Date* clarifies that dividends declared after the balance sheet date do not give rise to a liability as no obligation exists at the balance sheet date

Further details are given in Appendix C.

8 Key Companies Act 2006 changes

8.1 Introduction

The Companies Act 2006 applies to annual accounts for periods commencing on or after 6 April 2008.

Highlights

- New disclosure requirements for off-balance sheet arrangements apply to both IFRS and UK GAAP accounts (Section 8.2)
- An overarching requirement that directors must not approve accounts unless they give a true and fair view is introduced (Section 8.3)

Part 15 of the Companies Act 2006 (CA 2006) sets out the statutory requirements relating to preparation and publication of a company's annual accounts and statutory reports, ie directors' report and, for a quoted company, directors' remuneration report. Apart from limited provisions introduced earlier, for example expanded business review requirements for full list companies, the legislation largely comes into force for annual periods beginning on or after 6 April 2008. Whilst many accounting provisions are carried forward from the Companies Act 1985 (CA 1985) largely unaltered, there are some significant changes.

Compared to the old Act, the provisions are substantially rewritten to place those applying to small companies first, followed by additional requirements for non-small companies, then still more for quoted companies (which principally means those on the Full List). The new Act (ss386-389, CA 2006) includes a requirement for the company to keep 'adequate' accounting records rather than the 1985 Act requirement for 'proper' accounting records.

8.2 Off balance sheet arrangements

There is a new requirement to disclose off-balance sheet arrangements in the notes to the financial statements. This applies to both UK GAAP and IFRS accounts.

If the company is or has been party to arrangements that are not reflected in its balance sheet, and at the balance sheet date the risks or benefits arising from those arrangements are material, the notes to the accounts must include disclosures. To the extent necessary for enabling the financial position of the company to be assessed, the nature and business purpose of off-balance sheet arrangements and their financial impact on the company must be disclosed.

The key question is what constitutes "off-balance sheet arrangements"? This term is not defined in CA 2006, nor in the EC Directive from which it stems (2006/46/EC). The ASB has issued a Press Notice (PN328) setting out some guidance in response to a request put to the UITF. They do not define the term but set out two main items of guidance, one being Recital 9 of the Directive itself (which gives examples) and the other being further guidance from the UITF. Note also that the legislation uses the term "arrangement" rather than transaction, the former being potentially broader than the latter.

Key additional points made by the UITF are:

- Companies will need to consider the types of transactions envisaged by the EC (in the examples in Recital 9 to the Directive – see below) and the aim of the legislation
- S410A applies only where, at the balance sheet date, the risks or benefits arising from arrangements are material
- Disclosure need only be given to the extent necessary for enabling the financial position of the company to be assessed
- Some existing UK standards, eg FRS 5 *Reporting the Substance of Transactions* and SSAP 21 *Accounting for leases and hire purchase contracts*, require disclosures relating to items not in the balance sheet. For example:
 - SSAP 21 para 56 requires disclosure of operating lease commitments
 - FRS 5 para 30 requires disclosure of transactions to be sufficient for the user to understand the commercial effect whether or not assets or liabilities are recognised as a result
 - FRS 5 para 31 requires that, where a transaction has resulted in the recognition of assets or liabilities whose nature differs from that of items usually included in the relevant balance sheet heading, the differences should be explained
- Companies will need to consider whether transactions or arrangements not covered by SSAP 21 or FRS 5 require disclosure under s410A

Recital 9 to the Directive (2006/46/EC) is as follows:

"Such off-balance-sheet arrangements could be any transactions or agreements which companies may have with entities, even unincorporated ones, that are not included in the balance sheet. Such off-balance-sheet arrangements may be associated with the creation or use of one or more Special Purpose Entities (SPEs) and offshore activities designed to address, inter alia, economic, legal, tax or accounting objectives. Examples of such off-balance-sheet arrangements include risk and benefit-sharing arrangements or obligations arising from a contract such as debt factoring, combined sale and repurchase agreements, consignment stock arrangements, take or pay arrangements, securitisation arranged through separate companies and unincorporated entities, pledged assets, operating leasing arrangements, outsourcing and the like. Appropriate disclosure of the material risks and benefits of such arrangements that are not included in the balance sheet should be set out in the notes to the accounts or the consolidated accounts."

In addition to the UITF guidance, the following points are worth keeping in mind:

- Although the range of off-balance sheet arrangements is very wide, the risks or benefits arising from the arrangements have to be material to justify disclosure, and then disclosures only need be sufficient to enable the financial position of the company to be assessed
- Executory contracts may be a common item for such disclosures
- If in UK GAAP but not applying FRS 26, *Financial Instruments: Recognition and Measurement*, derivatives may be off balance sheet (for example in the parent's separate financial statements under UK GAAP for an AIM company)
- Most factored debt that is off-balance sheet may not give rise to material risks or benefits

8.3 True and fair

S393, CA 2006 introduces an overarching requirement that the directors must not approve accounts unless they show a true and fair view of the assets, liabilities, financial position and profit or loss:

- for the company's individual accounts, of the company
- for the company's group accounts, of the undertakings included in the consolidation as a whole, so far as concerns the members of the company.

This requirement applies whether the accounts are prepared under UK GAAP or IFRS.

In April 2008, the Financial Reporting Council published a legal counsel's opinion on the true and fair view. This supplements the earlier opinions from 1984 and 1993, but does not supersede them. The key point in the new opinion is that it endorses the centrality of the true and fair view concept whether accounts are prepared under IFRS or under UK GAAP. Directors must consider whether, taken in the round, the financial statements that they approve are appropriate. As a result, the opinion confirms that it will not be sufficient for directors (or auditors) to reach such conclusions solely because the financial statements were prepared in accordance with applicable accounting standards. The new opinion also considers whether there is any real difference between the expressions "true and fair view" and "fair presentation" and concludes that there is no real difference.

8.4 Form and content of accounts

Overview

The statutory requirements under CA 2006 for large company accounts are substantially similar to those under CA 1985, but with several important differences, which are summarised below:

- Requirements have been restructured, with the detailed requirements on the form and content of accounts and reports now set out in *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* made under CA 2006 (SI 2008/410). Additional requirements for quoted companies are set out separately from those applying to large companies in general
- The option to include financial instruments at fair value in UK GAAP accounts has been extended to include financial instruments at fair value where this is permitted under IFRS
- New disclosure requirements have been introduced covering:
 - Off balance sheet arrangements (Section 8.2)
 - Related party transactions (Section 7.2)
- The circumstances in which a company that has elected to prepare its accounts under IFRS can switch back to UK GAAP have been extended

The parts of SI 2008/410 dealing with the content of the financial statements themselves relate only to accounts under UK GAAP. Much of the content is substantially the same as that set out in various Schedules to the Companies Act 1985, though requirements have been re-ordered. Some minor disclosure requirements have been removed. For example disclosure of authorised share capital is no longer required for companies reporting under UK GAAP; this is consistent with the abolition from 1 October 2009 of the requirement for companies to have an authorised share capital.

Key disclosures applying for both IFRS and UK GAAP

Several disclosure requirements are included in the main body of CA 2006 or in separate regulations and apply to both UK GAAP and IFRS accounts. In addition to those on off-balance sheet arrangements (see Section 8.2), these principally cover:

- Disclosure of information regarding employees, where CA 2006 includes an exemption regarding the parent company's individual accounts where group accounts are presented (s408(3), CA 2006)
- Disclosures relating to auditor's remuneration and particulars of any liability limitation agreements, set out in separate regulations (SI 2008/489)
- Disclosures relating to directors' advances, credit and guarantees (s413, CA 2006) where the disclosures have been simplified compared to those under the old Act

Quoted companies

A quoted company under CA 2006 is a company whose equity share capital:

- has been included in the official list in accordance with Part 6, Financial Services and Markets Act 2000, or
- is officially listed in an EEA state, or
- is admitted to dealing on either the New York Stock Exchange or NASDAQ.

In determining whether a company is a quoted company, what matters is its status immediately before the end of its accounting reference period.

The principal additional statutory requirements for quoted companies' accounts and reports relate to:

- requirement for website publication of annual reports and accounts
- requirement for a directors' remuneration report (content specified by SI 2008/410).

Directors' remuneration report changes

For annual periods commencing on or after 6 April 2009 (not 2008) the directors' remuneration report for quoted companies will need to report more effectively on the way in which pay and employment conditions elsewhere in the group are taken into account in deciding directors' remuneration.

Filing time limits

The time limits for filing accounts at Companies House come down to nine months for private companies and six months for public companies. As with the other provisions, this applies for accounts in respect of financial years commencing on or after 6 April 2008.

For public companies, there must still be a general meeting to approve the accounts. Members will need to be sent copies of the accounts 21 days in advance of this meeting (the 'accounts meeting'). For accounts prepared under the 2006 Act by a plc, this meeting must take place within six months of the year end (which basically sets a time limit of just over five months for signing off accounts for plcs).

Switching back to UK GAAP from IFRS

If a company elects voluntarily to prepare its accounts under IFRS, the circumstances in which it may revert to UK GAAP in future years are restricted. However, a slight easing of restrictions has been included in s395(4)(aa)CA 2006 regarding a company's individual accounts. This permits a company that has adopted IFRS in its individual accounts to revert to UK GAAP if it ceases to be a subsidiary undertaking.

This easing of restrictions is likely to be most useful where a company has previously been a subsidiary in a group where all subsidiaries have moved to IFRS to be consistent with their parent, and the company is then sold into individual ownership, eg through a management buy-out.

9 Corporate governance changes

9.1 What has changed?

An updated Combined Code and changes to the Disclosure and Transparency Rules apply for annual periods beginning on or after 29 June 2008 and are relevant to full list companies.

Highlights

- Combined Code changes relax some Code provisions relating to the chairman (Section 9.2)
- New Disclosure and Transparency Rules are introduced on audit committees and corporate governance (Section 9.3)

9.2 2008 Combined Code

In 2008, the Financial Reporting Council (FRC) issued an updated version of the *Combined Code on Corporate Governance*. Under the Listing Rules, full list companies have to comply with the Code or explain their non-compliance.

The Combined Code has been updated to:

- remove the restriction on an individual chairing more than one FTSE 100 company
- allow the chairman of a listed company below the FTSE 350 to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment.

There are also a small number of other changes to the previous version, published in 2006. This Combined Code 2008 applies to annual periods beginning on or after 29 June 2008.

To coincide with the application of the Combined Code 2008, the Financial Services Authority (FSA) has amended Listing Rule LR 9.8.6(5) to require a statement of how the listed company has applied the main principles set out in Section 1 of the Combined Code (the word "main" being inserted). The intention of this change is to reduce the amount of boilerplate disclosures. Where a company has applied the Code's main principles by complying with the associated provisions, the FSA has observed that it should be sufficient for the company simply to report that it has done so. However, where a company has taken additional actions to apply the principles or otherwise improve its governance, the FSA has commented that would be helpful to shareholders to describe these in the annual report.

9.3 Disclosure and Transparency Rules changes

The Disclosure and Transparency Rules (DTR) apply principally to full list companies. Changes to the DTR have been made to implement two recent European Directives, Directive 2006/43/EC (Statutory Audit Directive) and Directive 2006/46/EC (Company Reporting Directive). The key requirements relate to audit committees and corporate governance. In the UK, the Combined Code already addresses many of the key matters as they affect listed companies. However, the DTR changes put requirements onto a statutory footing. The changes apply for annual periods commencing on or after 29 June 2008.

Audit committees

The Statutory Audit Directive introduces, among other things, a requirement that UK companies with transferable securities admitted to trading on a regulated market in any Member State have an audit committee that meets certain requirements set out in the directive, or that they have a body performing equivalent functions. The key requirements are implemented in the UK by the new DTR 7.1.

DTR 7.1.1 requires that companies have a body responsible for carrying out audit functions (ie an audit committee). This rule requires the committee to have at least one independent member and a member who has competence in accounting and/or auditing. The independence requirement and the financial expertise requirement may, but need not, be fulfilled by the same person (DTR 7.1.2). The DTR do not prescribe what would constitute independence and expertise of members of a body performing audit functions.

As a minimum, DTR 7.1.3 requires the body to:

- monitor the financial reporting process
- monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems
- monitor the statutory audit of the annual and consolidated accounts
- review and monitor the independence of the statutory auditor and in particular the provision of additional services to the company.

DTR 7.1.4 requires that a company must base any proposal to appoint a statutory auditor on a recommendation made by the relevant body.

DTR 7.1.7 states that, in the FSA's view, compliance with Combined Code provisions A.1.2, C.3.1, C.3.2 and C.3.3 will result in compliance with the new rules in DTR 7.1.1-7.1.5 relating to audit committees.

DTR 7.1.6 requires companies to issue a statement which identifies the body which carries out the audit functions and describes how that body is composed.

Corporate governance

The Company Reporting Directive introduces, among other things, a new provision requiring companies whose securities are admitted to trading on a regulated market to produce a corporate governance statement in their annual reports. The statement will have to refer to the corporate governance code applied by the company and explain whether, and to what extent, the company complies with that code. It will also have to include a description of the main features of the company's internal control and risk-management systems in relation to the financial reporting process. The Company Reporting Directive also requires the statement to refer to the composition and operation of the board and its committees. The key requirements are implemented in the UK by the new DTR 7.2.

In implementing the Directive, the FSA has retained the 'comply or explain' rule and added guidance to DTR to the effect that a company that complies with the 'comply or explain' rule will satisfy the comparable requirements of the new DTR rule.

DTR 7.2.1 requires a corporate governance statement to be included in the directors' report. That statement must be included as a specific section of the directors' report and must contain at least the information set out in relevant DTR provisions. However, DTR 7.2.9 permits a company to issue a separate report instead of including the statement in the directors' report. This could be a separate report published with the annual report or a

reference from the directors' report to where such a statement is publicly available on the company's website.

DTR 7.2.2 and 7.2.3 set out specific requirements for the statement. However, DTR 7.2.4 states that a listed company which complies with LR 9.8.6(6) (the comply-or-explain rule in relation to the Combined Code) will satisfy the requirements of DTR 7.2.2 and 7.2.3.

DTR 7.2.5 requires the corporate governance statement to contain a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process.

DTR 7.2.6 requires the corporate governance statement to contain the information required by paragraph 13 of Schedule 7 to the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410). This relates to information about share capital.

DTR 7.2.7 requires the corporate governance statement to contain a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees. DTR 7.2.8 notes that in the FSA's view, the information specified in provisions A.1.1, A.1.2, A.4.6, B.2.1 and C.3.3 of the Combined Code will satisfy the requirements of DTR 7.2.7.

DTR 7.2.10 requires a company which is required to prepare a group directors' report under the Companies Act 2006 to include in that report, or if presented separately, in the corporate governance statement, a description of the main features of the group's internal control and risk management systems in relation to the process for preparing consolidated accounts.

A 2009 changes checklist

IFRS changes

Standard or Interpretation	Ref	Check Y or N/a
(The effective date in each case is annual periods commencing on or after 1 January 2009 unless stated otherwise.)		
Half-yearly report issues addressed	1	
IFRS 8 <i>Operating Segments</i>	2	
IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	3	
Amendment to IFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>	4.1	
IAS 23 <i>Borrowing Costs</i> (revised 2007)	4.2	
Amendment to IFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures About Financial Instruments</i>	4.3	
<i>Improvements to IFRSs</i>	5.2	
Amendment to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>	5.3	
<i>Reclassification of Financial Assets – Amendments to IAS 39 Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures</i> (effective 1 July 2008)	5.4	
<i>Embedded Derivatives – Amendments to IAS 39 and IFRIC 9</i> (effective for annual periods ending on or after 30 June 2009)	5.5	
Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 27 <i>Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	5.6	
IFRIC 13 <i>Customer Loyalty Programmes</i> (effective for periods commencing 1 July 2008)	6.2	
IFRIC 15 <i>Agreements for the Construction of Real Estate</i>	6.3	
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i> (effective for periods commencing 1 October 2008)	6.4	
IFRIC 18 <i>Transfers of Assets from Customers</i> (effective prospectively for transfers made on or after 1 July 2009)	6.5	

Note on EU endorsement status

At the time of writing, not all pronouncements listed above had been adopted by the European Union. The current endorsement status of IASB pronouncements is available at www.efrag.org under 'Endorsement Status'.

In addition, the EU regulations adopting IFRIC 13 *Customer Loyalty Programmes* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (IASB effective date: annual periods commencing on or after 1 January 2008) state that those regulations are mandatory for periods commencing after 31 December 2008. At the time of writing, IFRIC 12 *Service Concession Arrangements* (IASB effective date: annual periods commencing on or after 1 January 2008) had not been adopted by the EU.

The legal requirement under the EU IFRS Regulation is to apply IFRSs (and Interpretations) adopted by the EU. Hence, technically those not adopted need not be applied in order to meet EU legal requirements, but the implications of not adopting full

IFRS should be considered. Furthermore, under EU law, unadopted pronouncements may not be applied where they conflict with adopted pronouncements.

Other changes

	Ref	Check Y or N/a
UK GAAP changes		
Amendment to FRS 8 <i>Related Party Disclosures</i> (effective periods commencing on or after 6 April 2008)	7.2	
Amendment to FRS 20 (IFRS 2) <i>Share-based Payment – Vesting Conditions and Cancellations</i> (effective periods commencing on or after 1 January 2009)	7.3 4.1	
Financial instruments changes	7.3	
Companies Act 2006		
(Changes are effective for annual periods commencing on or after 6 April 2008)		
Off-balance sheet arrangements disclosure	8.2	
Form and content of accounts	8.4	
Corporate governance		
(Changes are effective for annual periods beginning on or after 29 June 2008)		
Combined Code 2008	9.2	
Disclosure and Transparency Rules	9.3	

B IASB Improvements project

Improvements to IFRSs

The IASB has established an annual improvements process to address non-urgent, but necessary, amendments to IFRSs. Issues dealt with in this process arise from matters raised by the International Financial Reporting Interpretations Committee (IFRIC) and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRSs or where clarification of wording is required.

In 2008, the IASB published *Improvements to IFRSs* ('the 2008 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs).

Structure of the 2008 Improvements

Part I of the 2008 Improvements includes amendments that result in accounting changes for presentation, recognition or measurement purposes.

Part II includes those amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

IFRSs affected

The following table sets out the IFRSs that are affected by the amendments, the issue addressed and a brief description of the change. Reference should be made to the text of the 2008 Improvements for more details.

Part I of the 2008 Improvements

Standard affected	Issue	Summary of change
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Plan to sell the controlling interest in a subsidiary	Clarification that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
IAS 1 <i>Presentation of Financial Statements</i>	Current/non-current classification	Amendment to examples in paragraphs 68 and 71 of IAS 1 (revised 2007) to clarify that financial instruments classified as held for trading in accordance with IAS 39 are not necessarily required to be presented as current assets/current liabilities. Instead IAS 1's normal classification principles should be applied.
IAS 16 <i>Property, Plant and Equipment</i>	Recoverable amount	The term 'net selling price' has been replaced with 'fair value less cost to sell' in the definition of recoverable amount so as to achieve consistency with the terminology used in IFRS 5.

Standard affected	Issue	Summary of change
	Sale of assets held for rental	Amendment to clarify that an entity which, in the course of ordinary activities, sells property, plant and equipment that was held for rental to others transfers the property, plant and equipment assets to inventories at carrying amount when they cease to be rented and are held for sale. The proceeds from sale are to be recognised as revenue in accordance with IAS 18. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.
IAS 19 <i>Employee Benefits</i>	Curtailments and negative past service cost	Clarification that negative past service cost arises when benefits are changed as a result of a plan amendment so that the present value of the defined benefit obligation decreases.
	Plan administration costs	Change to definition of return on plan assets to require the deduction of plan administration costs only to the extent not included in actuarial assumptions used to measure defined benefit obligation.
	Replacement of term 'fall due'	Amendment of the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due wholly' with the term 'due to be settled'. This may affect classification and require some benefit plans to be split between short- and long-term.
	Guidance on contingent liabilities	Removal of the reference to 'recognition' in relation to contingent liabilities, in order to be consistent with IAS 37 (which prohibits recognition of a contingent liability).
IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Government loans with a below-market rate of interest	Amendment to require that the benefit of a government loan with a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial carrying value of the loan determined in accordance with IAS 39.
IAS 23 <i>Borrowing Costs</i>	Components of borrowing costs	Paragraphs 6(a)-(c) of IAS 23 have been replaced with an explicit requirement to determine interest expense using IAS 39's effective interest rate method.

Standard affected	Issue	Summary of change
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Measurement of subsidiary held for sale in separate financial statements	Amendment requiring that when an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with IAS 39 (rather than at cost), such investments continue to be measured using IAS 39 even if classified as held for sale in accordance with IFRS 5. Investments measured at cost will continue to be re-measured in accordance with IFRS 5 when classified as held for sale.
IAS 28 <i>Investments in Associates</i>	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures for investments in associates accounted for at fair value in accordance with IAS 39.
	Impairment of investment in associate	Clarification that an investment in an associate is treated as a single asset for impairment testing. The amendment explains that an impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of such an impairment loss should be recognised to the extent that the recoverable amount of the investment subsequently increases.
IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	Description of measurement basis in financial statements	Clarification that a number of assets and liabilities may or must be measured on the basis of a current value rather than historical value.
IAS 31 <i>Interests in Joint Ventures</i>	Required disclosures when interests in jointly controlled entities are accounted for at fair value	Clarification of disclosures for interests in jointly controlled entities accounted for at fair value in accordance with IAS 39.
IAS 36 <i>Impairment of Assets</i>	Disclosure of estimates used to determine recoverable amount	Amendment requiring additional disclosures when fair value less costs to sell is determined using discounted cash flows.
IAS 38 <i>Intangible Assets</i>	Advertising and promotional activities	Amendments to clarify when an entity can recognise a prepayment asset, including for advertising or promotional expenditure. In the case of supply of goods, the entity recognises such expenditure as an expense when it has a right to access the goods. For services, an expense is recognised on receiving the services. Some entities will need to 'expense' costs for promotional catalogues and similar sooner.

Standard affected	Issue	Summary of change
	Units of production method of amortisation	Removal of prohibition of amortisation methods that result in lower amortisation than the straight line method.
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Reclassification of derivatives into or out of the classification of at fair value through profit or loss	IAS 39 prohibits reclassification of financial instruments into or out of fair value through profit or loss after initial recognition. The amendments clarify that derivatives which cease to qualify as hedging instruments, derivatives designated as such and financial assets that are reclassified when an insurance company changes its accounting policies in accordance with IFRS 4.45 do not represent reclassifications.
	Designating and documenting hedges at the segment level	References to the designation of hedging instruments at the segmental reporting level have been removed.
	Applicable effective interest rate (EIR) on cessation of fair value hedge accounting	IAS 39.AG8 has been amended to clarify that the revised EIR (calculated in accordance with IAS 39.92 on cessation of fair value hedge accounting) should be applied when cash flows estimates change for instruments that were previously hedged items.
IAS 40 <i>Investment Property</i>	Investment property under construction or development	IAS 40.8 has been amended to bring property that is being constructed or developed for future use as an investment property within the scope of IAS 40 (the IAS 40 fair value model may therefore be applied). Previously IAS 16 applied to such property until completion.
IAS 41 <i>Agriculture</i>	Additional biological transformation	Removal of the prohibition on taking increases in value from additional biological transformation into consideration when calculating the fair value of biological assets using estimated cash flows.

Part II of the 2008 Improvements

Part II contains amendments that are terminology or editorial changes only with no or minimal expected effect on accounting:

Standard affected	Subject of amendment
IFRS 7 <i>Financial Instruments: Disclosures</i>	Presentation of finance costs
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Status of implementation guidance
IAS 10 <i>Events after the Reporting Period</i>	Dividends declared after the end of the reporting period
IAS 18 <i>Revenue</i>	Costs of originating a loan
IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Consistency of terminology with other IFRSs

Standard affected	Subject of amendment
IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	Consistency of terminology with other IFRSs
IAS 34 <i>Interim Financial Reporting</i>	Earnings per share disclosures in interim financial reports
IAS 40 <i>Investment Property</i>	Consistency of terminology with IAS 8
	Investment property held under lease
IAS 41 <i>Agriculture</i>	Examples of agricultural produce and products
	Point-of-sale costs

Effective date

The effective date for each amendment is included in the IFRS affected. In most (but not all) cases the amendments apply for annual periods beginning on or after 1 January 2009, with early adoption permitted.

The effective date for improvements is annual periods beginning on or after 1 July 2009 where the improvements relate to standards, or consequential amendments to standards, that take effect from that date. Principally, these improvements relate to consequential amendments made to other standards by IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (both Revised 2008).

C ASB Improvements Project

ASB Improvements Project

The ASB has issued an FRS of *Improvements to Financial Reporting Standards*. This is principally to maintain consistency with IFRS where UK standards have been converged. In addition, the ASB has made other minor amendments to update and correct standards. Most changes apply from 1 January 2009 (other than those that arise as a result of the introduction into IFRS of the revised IFRS 3 and IAS 27).

The Improvements FRS is divided into three main sections. Section 3 relates only to very minor editorial corrections to standards. Sections 1 and 2 are summarized below.

Section 1 – Improvements to Financial Reporting Standards

The table below indicates the standards amended. For details of the changes, the text of the Improvements FRS should be referred to.

FRS	Para	Amendment
FRS 7 <i>Fair Values in Acquisition Accounting</i>	1.1	Contingent consideration
FRS 17 <i>Retirement Benefits</i>	1.2	Fair value of unitised securities
FRS 21 (IAS 10) <i>Events after the Balance Sheet Date</i>	1.3	Dividends declared after the end of the reporting period
FRS 24 (IAS 29) <i>Financial Reporting in Hyperinflationary Economies</i>	1.4	Description of the measurement basis in financial statements Consistency of terminology with other FRS
FRS 25 (IAS 32) <i>Financial Instruments: Presentation</i>	1.5	Amendment to the scope of the Standard
FRS 26 (IAS 39) <i>Financial Instruments: Recognition and Measurement</i>	1.6	Amendment to the scope of the Standard Reclassifications of derivatives into or out of the classification of 'at fair value' through profit and loss Designating and documenting hedges at the segment level Application of the effective interest rate on cessation of fair value hedge accounting
FRS 29 (IFRS 7) <i>Financial Instruments: Disclosures</i>	1.7	Amendment to the scope of the Standard Presentation of finance costs

The change to FRS 7 on contingent consideration to be satisfied in shares clarifies that amounts attributable to that consideration will need to be allocated between equity and liabilities in accordance with FRS 25.

The amendment to FRS 21 clarifies that dividends declared after the balance sheet date do not give rise to a liability as no obligation exists at the balance sheet date.

The changes to FRSs 24, 26 and 29 are relevant only to the minority of UK GAAP preparers that have adopted FRS 26, principally full list companies in individual accounts.

Section 2 – Consequential amendments

Various FRSs are amended for consistency with consequential amendments made to the IFRS with which the UK standard is converged. The standards affected are summarised in the table below. For details of the changes, the text of the Improvements FRS should be referred to.

FRS	Para	Amendment arising from:
FRS 20 (IFRS 2) <i>Share-based payment</i>	2.1	IFRS 3 <i>Business Combinations</i> (revised January 2008).
FRS 21 (IAS 10) <i>Events after the Balance Sheet Date</i>	2.2	IAS 1 <i>Presentation of Financial Statements</i> (revised September 2007); and IFRS 5 <i>Non-current assets Held for Sale and Discontinued Operations</i> (issued March 2004).
FRS 22 (IAS 33) <i>Earnings Per Share</i>	2.3	IFRS 8 <i>Operating Segments</i> (issued November 2006); and IFRS 3 <i>Business Combinations</i> (revised January 2008).
FRS 23 (IAS 21) <i>The Effects of Changes in Foreign Exchange Rates</i>	2.4	IAS 1 <i>Presentation of Financial Statements</i> (revised September 2007); and IAS 27 <i>Consolidated and Separate Financial Statements</i> (revised January 2008).
FRS 25 (IAS 32) <i>Financial Instruments: Presentation</i>	2.5	IAS 1 <i>Presentation of Financial Statements</i> (revised September 2007).
FRS 26 (IAS 39) <i>Financial Instruments: Recognition and Measurement</i>	2.6	IAS 1 <i>Presentation of Financial Statements</i> (revised September 2007); and IAS 27 <i>Consolidated and Separate Financial Statements</i> (revised January 2008).
FRS 29 (IFRS 7) <i>Financial Instruments: Disclosures</i>	2.7	IAS 1 <i>Presentation of Financial Statements</i> ' (revised September 2007).

D IFRS changes effective for later periods

This appendix provides a brief summary of IASB pronouncements in issue at 30 April 2009 which have mandatory effective dates after 1 January 2009.

- IFRS 3 *Business Combinations* (Revised 2008): effective for business combinations in annual periods beginning on or after 1 July 2009
- IAS 27 *Consolidated and Separate Financial Statements* (Revised 2008): effective for annual periods beginning on or after 1 July 2009
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009)
- *Improvements to IFRSs* (issued May 2008): Most changes were effective from 1 January 2009 but some, principally those relating to consequential amendments made to other standards by IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (both Revised 2008) are effective for annual periods beginning on or after 1 July 2009
- *Improvements to IFRSs* (Issued April 2009): effective dates vary depending on the standard being amended. Amendments are effective for annual periods commencing on or after either 1 July 2009 or 1 January 2010, apart from a minor correction to IAS 39 effective from 1 January 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009)



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