



IFRS update for financial years ending 30 June 2010

(including all standards and
interpretations issued at 31 March 2010)

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Introduction



Companies reporting under International Financial Reporting Standards (IFRS) continue to face a number of new standards and interpretations, many of which are effective for years commencing 1 July 2009. The volume of change to IFRS is significant.

The nature of the changes ranges from significant amendments to fundamental principles to some minor changes included in the annual improvements process. These changes will affect many different areas of accounting such as the presentation of financial statements, accounting for employee benefits and business combinations.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the IT systems of many companies. Furthermore, these changes may impact business decisions, such as the design of share-based payment plans or the structuring of transactions.

The challenge for preparers will be to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations; it does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the standards and interpretations before taking any decisions or actions.

As in previous editions, due to the large number of changes which come into effect in the future, this publication focuses on June 2010 reporting, and also considers the effect on June 2011 reporting and beyond.

This publication includes all changes finalised by 31 March 2010. The table of contents contains the list of all such changes, and these are presented in the following order:

- Section 1:** New and amended standards and new interpretations that must be applied to financial years ending June 2010
- Section 2:** New and amended standards and new interpretations that must be applied to financial years ending June 2011, although entities may elect to apply some of these in an earlier period
- Section 3:** New and amended standards and new interpretations issued that are effective subsequent to June 2011 year-ends, although entities may elect to apply some of these in an earlier period
- Section 4:** Items not taken onto the Interpretations Committee agenda, when the reason for the rejection provides some accounting guidance that assists with the interpretation and application of IFRS



Sections 1, 2 and 3 provide a high-level overview of the key requirements of each new and amended standard issued by the International Accounting Standards Board (the IASB or the Board) and interpretations issued by the International Financial Reporting Standards Interpretations Committee (Interpretations Committee) (previously the IFRIC). This overview provides a summary of the transitional requirements and a brief discussion of the impacts that the changes may have on an entity's financial statements. These sections are presented in a numerical order affecting 30 June 2010, 2011 and subsequent year-ends, based on the effective dates contained within the standards (albeit that there are provisions that allow entities to adopt in earlier periods).

Where a standard or interpretation has been issued, but an entity has yet to apply it, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known or reasonably estimable information relevant to understanding the possible impact that the new standard or interpretation will have on the financial statements when it is initially applied. Therefore, management must disclose, in the June 2010 report, the impact of the standards and interpretations noted in Section 2 and 3, or indicate the reason for not doing so.

Section 4 provides a summary of issues (as published in *the IFRIC Update*) that the Interpretations Committee did not add to their agenda, however, in publishing their reasons, they did provide further guidance about existing IFRS. While these decisions are not authoritative, they provide some insight about the application of the standards.

International GAAP

Our publication *International GAAP 2010* is a comprehensive analysis of all standards and interpretations, including those mentioned in this publication, and it provides examples that illustrate how the requirements are applied.

Good Group (International) Limited

Our publication *Good Group (International) Limited*, is an illustrative set of annual financial statements incorporating all of the new disclosures that arise from the changes required by standards effective for the December 2009 year-end, as well as early adoptions of selected standards that would normally only be effective for the December 2010 year-end or later. The interim financial statements are based on a 6-month reporting period commencing on 1 January 2010. These will also assist in understanding the impact on the financial statements.

This publication is supplemented by illustrative financial statements that are aimed at specific sectors and industries. These now include *Good Bank (International) Limited*, *Good Insurance (International) Limited*, *Good Investment Fund Limited*, *Good Mining (International) Limited* and *Good Petroleum (International) Limited*.

International GAAP Disclosure Checklist

This checklist covers all the standards and interpretations applicable to entities with a year end of 30 June 2010 or thereafter and takes account of all IFRS standards and interpretations in issue at 31 March 2010. In addition to the mandatory disclosure requirements, this checklist includes the encouraged but non-mandatory disclosure requirements under IFRS.

Ernst & Young IFRS Change Reporter 2010

Ernst & Young has developed a computer-based tool called IFRS Change Reporter 2010. This tool is designed to be used by Ernst & Young engagement teams to support companies, reporting under IFRS, in making an assessment of the relevance to them of the upcoming changes described in this publication. This publication is also intended to facilitate the impact assessment carried out with the help of that tool.

Other Ernst & Young publications

References to other Ernst & Young publications that contain further details and discussion on these topics have also been included, all of which can be downloaded from our website www.ey.com/ifrs.

Section 1: New and amended standards and interpretations applicable to the June 2010 year-ends

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments)

Effective for periods beginning on or after 1 January 2009

Key requirements

IFRS 1 has been amended to allow an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening IFRS financial statements) as one of the following amounts:

- ▶ Cost determined in accordance with IAS 27 *Consolidated and Separate Financial Statements*
- ▶ At the fair value of the investment at the date of transition to IFRS, determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*
- ▶ The previous GAAP carrying amount of the investment at the date of transition to IFRS

This determination is made for each investment, rather than being a policy decision.

Transition

The revisions to IFRS 1 may be applied to an earlier period. However, disclosure of such earlier adoption is required.

Impact

The amendment to IFRS 1 will provide relief by reducing the cost of transition to IFRS for a parent preparing separate financial statements.

Other Ernst & Young publications

More information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 5* (June 2008).

IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations* (Amendment)

Effective for periods beginning on or after 1 January 2009

Key requirements

The purpose of this amendment is to give greater clarity in respect of vesting conditions and cancellations.

The amendment defines a 'vesting condition' as a condition that includes an explicit or implicit requirement to provide services. Therefore, any condition that does not have such a requirement is a non-vesting condition, for example possible non-compete provisions or transfer restrictions. The amendment requires 'non-vesting' conditions to be treated in a similar fashion to market conditions and, hence, factored into account in determining the fair value of the equity instruments granted.

Where an award does not vest as the result of a failure to meet a non-vesting condition, the accounting treatment depends on whether the failure to meet the condition is within or outside the control of either the entity or the counterparty.

A failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

Transition

This amendment is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in respect of changes in accounting policy. No transitional provisions are contained in the standard.

Impact

Entities will need to consider share-based payment schemes in which employees are still within the vesting period, as at the opening balance-sheet date, to determine whether any conditions need to be reclassified between vesting and non-vesting conditions.

To the extent that a condition becomes a non-vesting condition, the entity will need to consider whether the grant date fair value of the award needs to be changed retrospectively. Lapsed awards may give rise to an expense under the amendment in situations in which a condition is now deemed to be a non-vesting condition.

Other Ernst & Young publications

More information about this amendment can be found in Ernst & Young's publication *IFRS Alert Issue 25* (January 2008).



IFRS 3 *Business Combinations* (Revised)

Effective for periods beginning on or after 1 July 2009

Key requirements

A change to the scope of IFRS 3 increases the number of transactions to which it must be applied, by including combinations of mutual entities and combinations without consideration (e.g., dual listed shares).

The more significant changes in accounting for business combinations are as follows:

- ▶ Entities have a choice, for each business combination entered into, to measure non-controlling interests (previously minority interests) in the acquiree either at their fair value or at their proportionate interest in the acquiree's net assets.
- ▶ In step acquisitions, previously held interests are remeasured to fair value at the date of the subsequent acquisition and this value is included in calculating goodwill. Any gain or loss arising from the re-measurement is recognised in profit or loss.
- ▶ Contingent consideration is formally defined as additional consideration by the acquirer to the former owners (or return of consideration from the former owners). All contingent consideration is measured at fair value at the date of acquisition, and subsequent changes are recognised in profit or loss rather than adjusting goodwill recognised on the acquisition.
- ▶ Acquisition-related costs are expensed through profit or loss at the time that such costs are incurred.
- ▶ Contingent liabilities of the acquiree are recognised at their fair value if there is a present obligation that arises from a past event and its fair value can be measured reliably, regardless of the probability of a cash flow arising.
- ▶ The acquirer will reassess all assets and liabilities acquired to determine their classification or designation as required by other standards. There are two exceptions, namely for leases and insurance contracts, which are classified and designated based on the contractual terms and conditions at the date of inception of the contract.
- ▶ If the acquirer reacquires a right that it had previously granted to an acquiree, the right will be recognised as an identifiable intangible asset, separately from goodwill.

- ▶ All consideration transferred needs to be analysed to determine whether it is part of the exchange transaction or for another transaction, such as remuneration for the provision of future services or settlement of existing relationships.
- ▶ Indemnification assets are recognised and measured based on the same measurement principles and assumptions as the related liability.
- ▶ The standard requires that deferred taxation assets or liabilities arising from the net assets acquired in a business combination be measured in accordance with IAS 12 *Income Taxes*.

Transition

IFRS 3 applies prospectively to business combinations occurring after 1 July 2009. If the standard is applied before this date, the amendments to IAS 27 *Consolidated and Separate Financial Statements* must also be applied at the same date. This standard includes consequential amendments to 14 other standards and interpretations.

Impact

The revised standard (including the revised IAS 27) will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods.

The negotiation of contracts now needs to take into account the accounting consequences summarised above, especially as they apply to any contingent consideration and amounts transferred to employees. The greater time and effort that will be required to identify and measure the elements in the transaction may well increase the costs associated with such transactions. In addition, the future intentions with respect to the acquiree should be considered, as these may influence the choice of method to measure non-controlling interests.

Other Ernst & Young publications

More information about this revised standard can be found in Ernst & Young's publications IFRS Alert Issue 23 (January 2008) and *Business Combinations and Consolidated Financial Statements - How the changes will impact your business*.



IFRS 7 *Financial Instruments: Disclosures* (Amendments)

Effective for annual periods beginning on or after 1 January 2009

Key requirements

IFRS 7 has been amended to enhance disclosures about fair value measurement and liquidity risk.

IFRS 7 now requires financial instruments measured at fair value to be disclosed by the source of the inputs in determining fair value, using the following three-level hierarchy:

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

This information must be given by class of financial instrument. The level within which the instrument is categorised is based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety. These levels are for disclosure purposes only and measurement continues in terms of the hierarchy in IAS 39 *Financial Instruments: Recognition and Measurement*.

Disclosures also require a full reconciliation of Level 3 instruments, and transfers between Level 1 and Level 2.

The minimum liquidity risk disclosures of IFRS 7 have also been amended as follows:

- ▶ Derivative liabilities can be excluded from the contractual maturity analysis of financial liabilities unless they are essential for understanding the timing of the cash flows.

- ▶ Issued financial guarantee contracts must be recorded in the contractual maturity analysis, based on the maximum amount guaranteed and allocated to the earliest date they can be drawn down. This is irrespective of the likelihood that the guarantees will be drawn or the amount expected to be paid.
- ▶ Management of liquidity risk needs to be considered and an entity must disclose a maturity analysis of financial assets it holds for managing liquidity risk. In addition, the application guidance considers other factors that an entity may consider disclosing in respect of its management of liquidity risk.

Transition

The amendments are applied prospectively from the first year of adoption. Entities do not need to provide comparative information for the disclosures required by the amended paragraphs.

Impact

Management will need to carefully assess the new disclosure requirements and, in many cases, entities will need to modify information systems to capture the relevant data.

Other Ernst & Young publications

More information about this amendment can be found in Ernst & Young's *Supplement to IFRS Outlook* Issue 31 (March 2009).



IFRS 8 Operating Segments

Effective for periods beginning on or after 1 January 2009

Key requirements

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a full management approach to identifying, measuring and disclosing the results of its operating segments. The standard is only applicable to entities that have debt or equity instruments that are traded in a public market or that file (or is in the process of filing) their financial statements with a securities commission or similar party.

The information reported is that which the chief operating decision maker (CODM) uses internally for evaluating the performance of operating segments and allocating resources to those segments (a 'through the eyes of management' approach). When the information provided to management is recognised or measured on a different basis to IFRS information presented in the primary financial statements, entities need to provide explanations and reconciliations of the differences.

Additional disclosures required by IFRS 8 (not required by IAS 14) are:

- ▶ Replacing the more extensive geographical information in IAS 14, IFRS 8 requires revenues for each group of similar products and services, and revenues attributed to: the entity's country of domicile; and all foreign countries with separate disclosure of revenues to individual foreign countries if material (single segment companies also need to give this information).
- ▶ An explanation of how the entity has determined its reportable operating segments, the basis on which the disclosed amounts have been measured, changes in the structure of the internal organisation and any consequential impact on the composition of reportable segments.
- ▶ A measure of profit or loss and assets must be disclosed for each reportable segment and additional line items such as interest revenue and expense are required if they are provided to the CODM.
- ▶ When an entity has received more than 10% of its revenue from a single customer, the total amount of revenue earned from each customer and the name of the operating segment that reports that revenue.

- ▶ Segment liabilities, if such information is reviewed by the CODM.
- ▶ A reconciliation of total reportable segments to the corresponding IFRS amounts in the primary financial statements for revenues, profit or loss, assets, liabilities and other material items.

IFRS 8 has been amended by the Annual Improvements issued in April 2009. The amendment relates to disclosure about segment assets and is discussed in more detail in Section 2 of this publication. The amendment applies to annual periods beginning on or after 1 January 2010, although it can be adopted earlier.

Transition

The disclosures must be provided for all comparative periods presented, unless the necessary information is not available and the cost to produce such information is excessive, in which case that fact must be disclosed, although the ability to use such an exemption is likely to be rare.

Impact

It is likely that the information required to be disclosed will be readily available as it is already used internally. However, entities may need to put processes in place to reconcile this information to the primary financial statements.

Other Ernst & Young publications

More information about this standard can be found in Ernst & Young's publications *IFRS Alert* Issue 7 (December 2006) and *IFRS 8 Operating Segments: Implementation Guidance*.



IAS 1 *Presentation of Financial Statements* (Revised)

Effective for periods ending on or after 1 January 2009

Key changes

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The key changes are:

- ▶ The statement of changes in equity includes only transactions with owners, defined as “holders of instruments classified as equity”. All non-owner changes are presented in equity as a single line, with details included in a separate statement.
- ▶ The introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with “other comprehensive income” (OCI). The revisions specify the components in OCI, including gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans, deferred gains and losses on cash flow hedges and changes in the asset revaluation reserve. Entities may choose to present all items in one statement, or to present two linked statements, a separate income statement and a statement of comprehensive income.
- ▶ Amounts reclassified to profit or loss previously recognised in OCI must be separately disclosed, either in the statement of comprehensive income itself or in the notes.
- ▶ Entities must disclose the income tax relating to each component of OCI. This can be presented in the statement of comprehensive income itself or in the notes.
- ▶ When an entity restates its financial statements or retrospectively applies a new accounting policy, a statement of financial position must be presented as at the beginning of the earliest comparative period (i.e., a third balance sheet), with related notes.

- ▶ Dividends to equity holders can now be shown only in the statement of changes in equity or in the notes.
- ▶ The introduction of new terminology, replacing “balance sheet” with “statement of financial position” and “cash flow statement” with “statement of cash flows”, although these titles are not obligatory.

Transition

When the revised standard is first applied, the disclosures must be made for all comparative periods presented.

Impact

Entities will need to consider whether to present the statement of comprehensive income as a single statement or two statements. This may also impact the information disclosed in other announcements by the entity, such as press releases.

Other Ernst & Young publications

More information about this revised standard can be found in Ernst & Young's *IFRS Alert* Issue 17 (September 2007).



IAS 23 *Borrowing Costs* (Revised)

Effective for periods beginning on or after 1 January 2009

Key changes

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

The scope of the standard has been amended and the revised standard does not apply to borrowing costs directly attributable to:

- ▶ Qualifying assets measured at fair value. However, entities are not prohibited from presenting items in the income statement as if borrowing costs had been capitalised, before measuring the items at fair value

or

- ▶ Inventories that are manufactured in large quantities on a repetitive basis.

Transition

The revised standard applies to borrowing costs incurred on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

Impact

For entities that currently expense all borrowing costs as they are incurred, additional systems and processes may be needed to capture the information regarding assets under construction which meet the definition of a qualifying asset and to calculate the costs to be capitalised.

Other Ernst & Young publications

More information about this revised standard can be found in Ernst & Young's *IFRS Alert* Issue 12 (April 2007).

IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments)

Effective for periods beginning on or after 1 January 2009

Key requirements

IAS 27 is amended for the following changes in respect of the holding companies separate financial statements:

- ▶ The deletion of the 'cost method'. Making the distinction between pre- and post-acquisition profits is no longer required. All dividends will be recognised in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment
and
- ▶ In cases of reorganisations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value.

Transition

The revisions to IAS 27 are to be applied prospectively. An entity may elect to apply the changes retrospectively from a specific date. If such changes are applied retrospectively, it must be applied to all reorganisations subsequent to the date of the first restated reorganisation.

Impact

Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised in profit or loss. However, management will also need to carefully consider the timing of dividends, particularly if a detailed impairment test will be needed when dividends are declared. In certain jurisdictions, this recognition of all dividends in profit or loss may give rise to certain taxation consequences.

Any group reorganisation establishing new parent entities should be carefully assessed to establish whether it meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.

Other Ernst & Young publications

More information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 5 (June 2008).



IAS 27 Consolidated and Separate Financial Statements (Amendment)

Effective for periods beginning on or after 1 July 2009

Key requirements

The most significant changes to IAS 27 are as follows:

- ▶ Changes in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss.
- ▶ Losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests') even if the losses exceed the non-controlling equity investment in the subsidiary.
- ▶ Upon loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognised on disposal.

Transition

IAS 27 is applied retrospectively, with the following exceptions:

- ▶ The allocation of comprehensive income to non-controlling interests in periods before the standard is applied is not restated.

- ▶ Changes in ownership interests (without loss of control) occurring before the standard is applied are not restated.
- ▶ The carrying amount of an investment in a former subsidiary, where control was lost in periods before the standard is applied, is not restated. Accordingly, the gains or losses arising from such transactions are not recalculated.

If the amendment is applied before 1 July 2009, IFRS 3 *Business Combinations* (Revised), together with all the consequential amendments in these two standards, must also be applied at the same date.

Impact

Subsequent to application of the amendment, the impact of transactions where control is lost/not lost and the allocation of losses of a subsidiary will impact the reported profit or loss of an entity, both in terms of timing and on an aggregate basis.

Other Ernst & Young publications

More information about these amendments can be found in Ernst & Young's publications IFRS Alert Issue 23 (January 2008) and *Business Combinations and Consolidated Financial Statements - How the changes will impact your business*.



IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments)

Effective for periods beginning on or after 1 January 2009

Key requirements

Puttable financial instruments will be classified as equity if they have all of the following specified features:

- ▶ The instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a *pro rata* share of the entity's net assets.
- ▶ The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation.
- ▶ All instruments in the subordinate class have identical features.
- ▶ The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a *pro rata* share of the entity's net assets.
- ▶ The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognised net assets, or a change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument.

In addition, the entity must not have any other financial instrument or contract that has:

- ▶ Total cash flows based on profit or loss, a change in recognised net assets, or a change in the fair value of the recognised and unrecognised net assets
- and
- ▶ The effect of restricting or fixing the residual return to the holders of the puttable instruments.

An instrument that imposes, on the entity, an obligation to deliver a *pro rata* share of the entity's net assets only upon liquidation will also be classified as equity if it has features broadly similar to those above, and the entity also meets the specified conditions above. Such obligations occur when liquidation is certain and outside the control of the entity or is uncertain and within the control of the holder of the instrument. When assessing the features of the instrument, other non-financial contracts between the entity and the holders of the instrument are not considered, provided the terms and conditions of that non-financial contract are the same as those that would apply if it was entered into with non-instrument holders and on terms consistent with other parties.

This amendment does not, however, affect how puttable instruments held by non-controlling interests in partly-owned subsidiaries are classified in the consolidated financial statements. These instruments would continue to be accounted for as per their previous classification.

Transition

The amendment to IAS 32 must be applied retrospectively. If an entity applies the amendments to an earlier period, it must also apply the consequential amendments to IAS 1 *Presentation of Financial Statements* (amongst others) at the same time.

Impact

This amendment will permit a range of entities to recognise their capital as equity rather than as financial liabilities, as currently required by IAS 32. This will better align the accounting treatment of such transactions with their commercial substance.

This amendment will have a significant impact on the presentation of the financial statements of entities to which it applies, affecting both ratios and possibly debt covenants of these entities.

Other Ernst & Young publications

More information about these amendments can be found in the Ernst & Young publications *IFRS Alert* Issue 27 (February 2008) and *Supplement to IFRS Outlook* Issue 1 (April 2008).



IAS 39 *Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)*

Effective for periods beginning on or after 1 July 2009

Key requirements

The amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

An entity can designate the changes in fair value or cash flows related to a one-sided risk as the hedged item in an effective hedge relationship. In most cases, the intrinsic value of a purchased option hedging instrument, but not its time value, reflects a one-sided risk in a hedged item.

The designated risks and portions of cash flows or fair values in an effective hedge relationship must be separately identifiable components of the financial instrument. Additionally, the changes in cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable.

The amendment indicates that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow.

Transitional provisions

If changes in accounting policies are required, they are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Retrospective re-designation of hedge relationships is not permitted.

Impact

Entities that have designated options as hedging instruments of one-sided risks, including the imputed time value, and/or have designated the effects of inflation on fixed rate financial assets as the hedged risks, will be significantly impacted by this amendment.

Such arrangements may no longer be accounted for as effective hedge relationships and management will need to re-consider its hedging strategy for the future.

Other Ernst & Young publications

More information about this amendment can be found in Ernst & Young publication *Supplement to IFRS Outlook* Issue 11 (August 2008).



IFRIC 15 *Agreements for the Construction of Real Estate*

Effective for periods beginning on or after 1 January 2009

Key requirements

This interpretation addresses whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*.

IAS 11 will only be applicable when the definition of a construction contract – a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use – is met, in which case, revenue will be recognised by reference to the stage of completion.

When the arrangement is not a construction contract, but is an agreement for the rendering of services, revenue is recognised by reference to the stage of completion of the transaction using the percentage of completion method in IAS 18.

When an agreement involves providing services with the construction materials, this is considered a 'sale of goods'. If the risks and rewards of ownership are transferred to the buyer on a continuous basis, revenue is recognised by reference to the stage of completion. In other cases, revenue will only be recognised when all the criteria of paragraph 14 of IAS 18 are met, which is normally upon completion.

Transition

If changes to accounting policies are required, they are applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact

Many real estate developers will have to reconsider their accounting policies in respect of revenue recognition for their developments.

Although the interpretation clarifies when the percentage of completion method can be used, it is unlikely in many jurisdictions that such arrangements will meet the necessary criteria. Therefore, revenue will be deferred (and consequently profit) until construction is complete.

Although the interpretation is not intended to be applied outside the real estate industry, it may be applied, by analogy, to industries other than real estate in accordance with the IAS 8 hierarchy.

Other Ernst & Young publications

More information about this interpretation can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 10 (July 2008).



IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Effective for periods beginning on or after 1 October 2008

Key requirements

This interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation.

The interpretation clarifies that:

- ▶ An entity can hedge the foreign exchange gains and losses on a net investment arising from differences between the functional currency of the foreign operation and the functional currencies of either its direct parent, or of any intermediate parent or of its ultimate parent
- ▶ The hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements
- ▶ As in other hedge relationships, an exposure cannot be hedged twice
and
- ▶ A hedging relationship designated by a parent entity (including an intermediate parent) need not be maintained at the ultimate parent entity level.

In addition, the hedging instrument is not required to be held by the entity exposed to the risk. To assess the effectiveness of the hedging instrument, for the purposes of the consolidated financial statements, the change in value of the hedging instrument is calculated in terms of the functional currency of the parent entity that is hedging its risk.

On disposal of a foreign operation, IFRIC 16 requires an entity to recycle the amount in other comprehensive income relating to that specific foreign operation. IFRIC 16 states that an entity has a choice to recycle the amount that arises from either the direct method or the step-by-step method, irrespective of the method that the entity uses for consolidation purposes. The choice of method of recycling is a policy choice.

IFRIC 16 was amended subsequent to being issued by the Annual Improvements issued in April 2009. The amendment states that the hedging instrument can be held by any entity within the group, providing the designation, documentation and effectiveness requirements of IAS 39 are met. The amendment applies to annual periods beginning on or after 1 October 2008, in line with the effective date of IFRIC 16.

Transition

IFRIC 16 is to be applied prospectively. Therefore, if an entity has designated a hedging instrument as a hedge of a net investment that does not meet the requirements of the Interpretation, it is required to apply IAS 39 to prospectively discontinue hedge accounting.

Impact

It is important that entities consider the overall economic risk they are trying to mitigate when determining the hedging strategy for the group. Documentation and communication of these strategies is vital.

For entities that hedge their net investments, the accounting policy choice concerning the recycling of foreign currency gains and losses out of OCI on disposal of a net investment must be considered. Where consolidation methods that differ from the method used for recycling are applied, this will need to be reconsidered as to the impact that would have on the entity's reporting systems.

Other Ernst & Young publications

More information about this interpretation can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 9* (July 2008).



IFRIC 17 Distributions of Non-cash Assets to Owners

Effective for annual periods beginning on or after 1 July 2009

Key requirements

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

The interpretation applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of cash or other assets, provided that:

- ▶ All owners of the same class of equity instruments are treated equally
- and
- ▶ The non-cash assets distributed are not ultimately controlled by the same party before and after the distribution (i.e., excluding transactions under common control).

An entity must recognise a liability for the distribution when it is no longer at the discretion of the entity (ie, when shareholder approval is obtained, if required). The liability is initially recognised at the fair value of the assets to be distributed and is remeasured at the end of each reporting period and immediately before settlement.

At settlement date, the difference between the carrying amount of the assets to be distributed and the liability is recognised in profit or loss as a separate line item.

IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

Transition

This interpretation is to be applied prospectively. Earlier application is permitted, however, IFRS 3 (revised 2008), IAS 27 (amended May 2008) and IFRS 5 (amended by this interpretation) must also be applied from the same date.

Impact

The changes are likely to require a change in accounting policy for many entities, which may result in a significant gain being recognised at the date of settlement that may not have been previously recognised. As any gain will only be recognised after the declaration of a dividend, management will need to consider if there are any implications on the entity's ability, such as statutory requirements, to declare dividends.

Other Ernst & Young publications

More information about this interpretation can be found in Ernst & Young's *Supplement to IFRS Outlook* Issue 21 (November 2008).



IFRIC 18 *Transfers of Assets from Customers*

Effective for transfers of assets from customers received on or after 1 July 2009

Key requirements

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both.

The interpretation requires an entity to initially determine whether the transferred item meets the definition of an asset as set out in the *Framework for the Preparation and Presentation of Financial Statements* (Framework). A key element in the definition is whether the entity has control of the item. This must be determined by analysis of all the facts and circumstances. If the definition is met, the asset is measured at fair value on initial recognition as part of an exchange transaction.

The entity must identify the service(s) delivered and allocate the consideration received (the fair value of the asset) to each identifiable service. Revenue is recognised as each service is delivered by the entity.

Transition

IFRIC 18 is to be applied prospectively. Earlier application is permitted provided the valuations and other information needed to apply the interpretation were obtained at the time the transfer occurred.

Impact

Many entities in sectors such as utilities, telecoms and automotive will need to change their revenue accounting policies and this may have a significant impact on future operating results. Entities will need to ensure there is a process to carefully assess the conditions surrounding property, plant and equipment received to determine whether the entity has an asset. In some cases information systems may require changes to ensure all relevant data is captured.

Other Ernst & Young publications

More information about this interpretation can be found in Ernst & Young's *Supplement to IFRS Outlook* Issue 29 *Transfer of Assets from Customers* (February 2009).

Improvements to International Financial Reporting Standards (issued 2008)

Effective for periods beginning on or after 1 January 2009, unless stated otherwise

Key requirements

The Improvements to IFRS project is an annual process that the IASB has adopted to deal with non-urgent but necessary amendments to IFRS (the 'annual improvements process').

In the first omnibus edition, 34 amendments are dealt with by the IASB. The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; and Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. The following summarises the amendments included in Part I and Part II.

Part I	
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	<p><i>Plan to sell the controlling interest in a subsidiary</i></p> <p>When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale. This amendment is effective for periods commencing 1 July 2009.</p>
IAS 1 Presentation of Financial Statements	<p><i>Current/non-current classification of derivatives</i></p> <p>Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.</p>
IAS 16 Property, Plant and Equipment	<p><i>Recoverable amount</i></p> <p>The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with IFRS 5 and IAS 36 <i>Impairment of Assets</i>.</p> <p><i>Sale of assets held for rental</i></p> <p>Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items and the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.</p>
IAS 19 Employee Benefits	<p><i>Curtailments and negative past service costs</i></p> <p>Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.</p> <p><i>Plan administration costs</i></p> <p>Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.</p> <p><i>Replacement of term 'fall due'</i></p> <p>Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.</p> <p><i>Guidance on contingent liabilities</i></p> <p>Deletes the reference to the recognition of contingent liabilities to ensure consistency with IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p>
IAS 20 Accounting for Government Grants and Disclosures of Government Assistance	<p><i>Government loans with no interest or a below-market interest rate</i></p> <p>Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.</p>



IAS 23 Borrowing Costs	<p><i>Components of borrowing costs</i></p> <p>Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' - that is components of the interest expense calculated using the effective interest rate method.</p>
IAS 27 Consolidated and Separate Financial Statements	<p><i>Measurement of a subsidiary held for sale in separate financial statements</i></p> <p>When a parent entity accounts for a subsidiary at fair value in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.</p>
IAS 28 Investments in Associates	<p><i>Required disclosures when investments in associates are accounted for at fair value through profit or loss</i></p> <p>If an associate is accounted for at fair value through profit or loss, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.</p> <p><i>Impairment of investment in an associate</i></p> <p>An investment in an associate is a single asset for the purpose of conducting the impairment test - including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.</p>
IAS 29 Financial Reporting in Hyperinflationary Economies	<p><i>Description of measurement basis in financial statements</i></p> <p>Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.</p>
IAS 31 Interests in Joint Ventures	<p><i>Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss</i></p> <p>If a joint venture is accounted for at fair value, the only disclosure requirements of IAS 31 are those relating to the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses.</p>
IAS 36 Impairment of Assets	<p><i>Disclosure of estimates used to determine recoverable amount</i></p> <p>When discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosures are required as when discounted cash flows are used to estimate 'value in use'.</p>
IAS 38 Intangible Assets	<p><i>Advertising and promotional activities</i></p> <p>Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.</p> <p><i>Unit of production method of amortisation</i></p> <p>Deletes references to there being rarely, if ever, persuasive evidence to support an amortisation method for finite life intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method, thereby effectively allowing the use of the unit of production method.</p>
IAS 39 Financial Instruments: Recognition and Measurement	<p><i>Reclassification of derivatives into or out of the classification of at fair value through profit or loss</i></p> <p>Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.</p> <p>When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 <i>Insurance Contracts</i>, this is a change in circumstance, not a reclassification.</p> <p><i>Designation and documentation of hedges at the segment level</i></p> <p>Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.</p> <p><i>Applicable effective interest rate on cessation of fair value hedge accounting</i></p> <p>Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.</p>



IAS 40 <i>Investment property</i>	<p><i>Property under construction or development for future use as investment property</i></p> <p>Revises the scope (and the scope of IAS 16 <i>Property, Plant and Equipment</i>) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.</p>
IAS 41 Agriculture	<p><i>Discount rate for fair value calculations</i></p> <p>Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.</p> <p><i>Additional biological transformations</i></p> <p>Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.</p>

Part II

IFRS 7 Financial Instruments: Disclosures	Removes the reference to 'total interest income' as a component of finance costs.
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
IAS 10 Events after the Reporting Period	Clarifies that dividends declared after the end of the reporting period are not obligations.
IAS 18 Revenue	Replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Revises various terms used to be consistent with other IFRS.
IAS 29 Financial Reporting in Hyperinflationary Economies	Revises various terms used to be consistent with other IFRS.
IAS 34 Interim Financial Reporting	Clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
IAS 40 Investment Property	Revises the conditions for a voluntary change in accounting policy to be consistent with IAS 8. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
IAS 41 Agriculture	Replaces the term 'point-of-sale costs' with 'costs to sell'. Revises the example of produce from trees in a plantation forest from 'logs' to 'felled trees'.

Other Ernst & Young publications

More information about amendments can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 6* (June 2008).



Improvements to International Financial Reporting Standards (issued 2009)

Generally, these amendments were effective for periods beginning on or after 1 January 2010. Listed below are those that had an earlier date which would affect 30 June 2010 reporting periods.

Key requirements

In the second omnibus edition, 15 amendments to 12 standards are dealt with by the IASB. The following summarises these amendments.



IFRS 2 <i>Share-based Payment</i>	<p><i>Scope of IFRS 2 and revised IFRS 3</i></p> <p>Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2. Effective for periods beginning on or after 1 July 2009.</p>
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	See Section 2
IFRS 8 <i>Operating Segments</i>	See Section 2
IAS 1 <i>Presentation of Financial Statements</i>	See Section 2
IAS 7 <i>Statement of Cash Flows</i>	See Section 2
IAS 17 <i>Leases</i>	See Section 2
IAS 18 <i>Revenue</i>	<p><i>Determining whether an entity is acting as principal or agent</i></p> <p>The Board has added guidance to determine whether an entity is acting as a principal or as an agent. Effective immediately on issue date in April 2009.</p>
IAS 36 <i>Impairment of Assets</i>	See Section 2
IAS 38 <i>Intangible Assets</i>	<p><i>Consequential amendments arising from IFRS 3</i></p> <p>If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives.</p> <p><i>Measuring fair value</i></p> <p>The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.</p>
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	See Section 2
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	<p><i>Scope of IFRIC 9 and IFRS 3</i></p> <p>IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.</p>
IFRIC 16 <i>Hedges of a net Investment in a Foreign Operation</i>	<p><i>Amendment of the restriction on the entity that can hold hedging instruments</i></p> <p>Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. See Section 1 for further details.</p>

Other Ernst & Young publications

More information about the annual improvements can be found in Ernst & Young's Supplement to *IFRS Outlook* Issue 40 (April 2009).

Section 2: New and amended standards and interpretations applicable to June 2011 year-ends

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters (Amendments)*

Effective for annual periods beginning on or after 1 January 2010

Key requirements

IFRS 1 has been amended to provide additional exemptions from full retrospective application of IFRS for the measurement of oil and gas assets and leases as follows:

- ▶ Entities that have measured exploration and evaluation assets, and assets in the development or production phases using “full cost accounting”, can measure these assets at the amounts determined under previous GAAP at the date of transition. Where an entity uses this exemption it must test all such assets for impairment at the date of transition to IFRS.
- ▶ Where an entity uses the above deemed cost exemption for oil and gas assets, the related decommissioning and restoration liabilities are measured at the date of transition in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Any adjustment of the carrying amount under previous GAAP is recognised in retained earnings.
- ▶ Where an entity has, under previous GAAP, made the same determination of whether an arrangement contains a lease as required by IFRIC 4 *Determining whether an Arrangement contains a Lease*, but that assessment was made at a date other than that required by IFRIC 4, the entity does not need to reassess that determination.

Transition

The amendments may be applied earlier than the effective date and this fact must be disclosed.

Impact

The amendments will provide relief to entities with oil and gas assets and leases that are first-time adopters, by reducing the cost of transition to IFRS.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 52* (July 2009).

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

Effective for annual periods beginning on or after 1 July 2010

Key requirements

IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions in IFRS 7 *Financial Instruments: Disclosures* as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application.

To achieve this, the transitional provisions in IFRS 7 were amended have been amended to clarify that the disclosures need not be provided for:

- ▶ Annual or interim periods, including any statement of financial position, presented with an annual comparative period ending before 31 December 2009
- and
- ▶ Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

Transition

As this exemption will only be applicable to years ending 30 June 2010, entities should early adopt these amendments before their effective date. This fact will have to be disclosed.

Impact

The amendments can provide relief to first-time adopters, by reducing the cost and resources required to provide certain comparative disclosures.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 66* (February 2010).



IFRS 2 Group Cash-settled Share-based Payment Arrangements

Effective for annual periods beginning on or after 1 January 2010

Key requirements

IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. The amendment clarifies that the *scope of IFRS 2* includes such transactions. The amendment incorporates the guidance from IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *Group and Treasury Share Transactions* and hence both IFRIC 8 and IFRIC 11 have been withdrawn.

Transition

This amendment is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in respect of changes in accounting policy. Earlier application is permitted and must be disclosed.

Impact

For group reporting and consolidated financial statements, the amendment clarifies that if an entity receives goods or services that are cash settled by shareholders not within the group, they are outside the scope of IFRS 2. Management will need to consider any such past transactions.

The amendment may have a significant effect on the cost recognised in separate financial statements of an entity that has material share-based payment awards that have not previously been accounted for in accordance with IFRS 2.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 45 (June 2009).

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

Effective for annual periods beginning on or after 1 February 2010

Key requirements

The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

- ▶ The rights are given *pro rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments
- ▶ They are used to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Transition

This amendment is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in respect of changes in accounting policy. Earlier application is permitted and must be disclosed.

Impact

The amendment will provide relief to entities that issue rights (fixed in a currency other than their functional currency), from treating the rights as derivatives with fair value changes recorded in profit or loss.

Rights issued in foreign currencies that were previously accounted for as derivatives will now be classified as equity instruments. Application of the change will result in the reversal of profits or losses previously recognised, as application of the change will be retrospective. Additionally, the impact on previously reported results would be a reclassification in equity.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 58 (October 2009).



IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Effective for annual periods beginning on or after 1 July 2010

Key requirements

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 *Financial Instruments; Recognition and Measurement*. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to a modification of the liability outstanding. If so, the consideration paid is allocated between the two parts.

The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability.

Transition

If the amendment results in a change in accounting policy, this is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* from the beginning of the earliest comparative period presented. Earlier application is permitted and must be disclosed.

Impact

In many cases, the modifications will result in a gain recognised in profit or loss as the fair value of the equity issued will often be less than the carrying value of the liability. Determining the fair value of the equity may be difficult if the shares are not actively traded. As the interpretation is applied retrospectively, determining past fair values may be particularly difficult.

Where these transactions occur within the same group, entities will need to develop an appropriate accounting policy as they are scoped out of the interpretation.

Other Ernst & Young publications

Further information about this Interpretation can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 62* (November 2009).

Improvements to International Financial Reporting Standards (issued 2009)

Generally, these amendments were effective for periods beginning on or after 1 January 2010. The amendments with an earlier effective date have been noted in Section 1.

Key requirements

In the second omnibus edition, 15 amendments to 12 standards are dealt with by the IASB. The following summarises these amendments.



IFRS 2 Share-based Payment	<i>See Section 1</i>
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	<i>Disclosures</i> Clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5.
IFRS 8 Operating Segments	<i>Disclosure of information about segment assets</i> Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.
IAS 1 Presentation of Financial Statements	<i>Current/non-current classification of convertible instruments</i> The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
IAS 7 Statement of Cash Flows	<i>Classification of expenditures on unrecognised assets</i> Only expenditures that result in a recognised asset can be classified as a cash flow from investing activities.
IAS 17 Leases	<i>Classification of land and buildings</i> The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.
IAS 18 Revenue	<i>See Section 1</i>
IAS 36 Impairment of Assets	<i>Unit of accounting for goodwill impairment testing</i> The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.
IAS 38 Intangible Assets	<i>See Section 1</i>
IAS 39 Financial Instruments: Recognition and Measurement	<i>Assessment of loan prepayment penalties as embedded derivatives</i> A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. <i>Scope exemption for business combination contract</i> The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. <i>Cash flow hedge accounting</i> Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
IFRIC 9 Reassessment of Embedded Derivatives	<i>See Section 1</i>
IFRIC 16 Hedges of a net Investment in a Foreign Operation	<i>See Section 1</i>

Other Ernst & Young publications

More information about the annual improvements can be found in Ernst & Young's *Supplement to IFRS Outlook* Issue 40 (April 2009).

Section 3: New and amended standards and interpretations issued that are effective subsequent to June 2011 year-ends

IFRS 9 *Financial Instruments*

Effective for annual periods beginning on or after 1 January 2013

Key requirements

The first phase of IFRS 9 *Financial Instruments* addresses the classification and measurement of financial assets. The IASB's work on the other phases is ongoing and includes classification and measurement of financial liabilities, impairment of financial instruments, hedge accounting and derecognition of financial instruments, with a view to replacing IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety by early 2011.

Phase 1 of IFRS 9 applies to all financial assets within the scope of IAS 39. The key requirements of IFRS 9 are as follows.

At initial recognition, all financial assets are measured at fair value.

Debt instruments

Debt instruments may (if the Fair Value Option is not invoked) be subsequently measured at amortised cost if:

- ▶ The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows
- and
- ▶ The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

Equity investments

All equity investment financial assets are measured at fair value either through OCI or profit or loss. Entities must make an irrevocable choice for each instrument, unless they are held for trading, in which case they must be measured at fair value through profit or loss.

Transition

Phase 1 of IFRS 9 can be early adopted for reporting periods ending on or after 31 December 2009. For entities adopting the standard in 2009 and 2010, the initial application date may be any date within the reporting period from 12 November 2009.

The standard is applied retrospectively. However, early adopters get some transitional relief from restating comparative figures.

Impact

Phase 1 of IFRS 9 will have a significant impact on the classification and measurement of financial assets. For those entities considering early adoption there are a number of benefits and challenges that should be considered.

Other Ernst & Young publications

Further information about the new standard can be found in Ernst & Young's publication *Supplement to IFRS Outlook Issue 60* (November 2009).



IAS 24 *Related Party Disclosures* (Revised)

Effective for annual periods beginning on or after 1 January 2011

Key requirements

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

A partial exemption from the disclosures has been included for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

- ▶ The name of the government and the nature of its relationship with the reporting entity
- ▶ The nature and amount of individually significant transactions year
- ▶ A qualitative or quantitative indication of the extent of other transactions that are collectively significant.

Transition

This amendment is applied retrospectively. Earlier application is permitted for either the partial exemption for government-related entities or the entire revised standard, with disclosure of such fact.

Impact

Entities will need to consider the revised definition of related parties to ensure all the relevant information is still being captured. The reduced disclosures for government-related entities may provide some relief but a substantial amount of work may be required to identify these relationships and ensure information is captured for those disclosures that are now required.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 59 (November 2009).

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

Effective for annual periods beginning on or after 1 January 2011

Key requirements

IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Transition

The amendment is applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation.

Impact

Entities will need to assess whether prepayments were made that will now need to be re-assessed for their impact on the recoverability of pension assets. Entities applying the corridor approach to recognise actuarial gains and losses will also need to take account of the interaction between the corridor and the recoverability of the plan assets.

Other Ernst & Young publications

Further information about this amendment can be found in Ernst & Young's publication *Supplement to IFRS Outlook* Issue 64 (November 2009).

Section 4: Items not taken onto the Interpretations Committee agenda where the Interpretations Committee has provided guidance on the interpretation of IFRS

Since July 2009, the Interpretations Committee has deliberated on a number of items. Certain items were published in the IASB's *IFRIC Update* as not having been added to the Interpretations Committee agenda, together with the reason for not doing so. When issuing their reasons, the Interpretations Committee added some further guidance about how the standards should be applied.

This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and possibly how the standards and current interpretations are to be applied.

The table below summarises only those items where it is felt that additional guidance was provided. The full list of items considered and the reasons for not being taken onto the agenda can be found in the *IFRIC Update* on the IASB's website.

Final date considered	Issue	Summary of reasons for not adding to the IFRIC Interpretations Committee agenda
July 2009	IAS 27 <i>Consolidated and Separate Financial Statements</i> - transaction costs for non-controlling interests	The Interpretations Committee was asked to clarify how transaction costs incurred on the acquisition or disposal of non-controlling interest (NCI), that does not result in the loss of control of an entity, should be treated. The Interpretations Committee noted that transactions with NCI would be treated as equity transactions under IAS 27 and IAS 1 <i>Presentation of Financial Statements</i> . Therefore, transaction costs arising would not be part of income and expenses for the period.
July 2009	IAS 28 <i>Investments in Associates</i> - Potential effect of IFRS 3 <i>Business Combinations</i> (as revised in 2008) and IAS 27 on equity method accounting	<p>The Interpretations Committee deliberated two issues relating to equity accounting, and concluded that:</p> <ul style="list-style-type: none"> ▶ The initial carrying value of an equity method investment is its cost, which comprises its purchase price plus any directly attributable expenditure necessary to obtain it. ▶ An equity method investee's issue of shares leading to a reduction in the investor's ownership interest without loss of significant influence is accounted for as any other reduction in interest. In such cases, a proportion of any gains or losses included in other comprehensive income are reclassified to the income statement. <p>These conclusions distinctly separate the business combinations standard from any determination of a cost, which would also apply to the stand-alone financial statements of a parent. This will also result in more consolidation adjustments when preparing consolidated financial statements.</p>
July 2009	IAS 39 <i>Financial Instruments: Recognition and Measurement</i> - Meaning of 'significant or prolonged'	IAS 39 states that for equity instruments that are available for sale, objective evidence of impairment includes a significant or prolonged decline in fair value below cost. "Significant or prolonged" is not defined and significant diversity exists in practice. The Interpretations Committee noted that the IASB has accelerated its project to replace IAS 39. Therefore, the Interpretations Committee decided not to add the issue to its agenda, however, it did provide some guidance by noting inappropriate interpretations. Refer to Supplement to <i>IFRS Outlook</i> , Issue 50: IFRIC decisions on rights issues, debt to equity swaps and impairment of equity investments.



November 2009	IFRS 3 <i>Business Combinations</i> - Measurement of NCI	IFRS 3 states that an acquirer measures any non-controlling interest in an acquiree, either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. NCI may include options or warrants, classified as equity. The Interpretations Committee noted that the measurement choice should apply only to instruments currently entitled to proportionate share of the acquiree's net assets.
November 2009	IFRS 3 <i>Business Combinations</i> - Unreplaced and voluntarily replaced share-based payment awards	IFRS does not contain requirements for acquiree share-based payment awards that are not replaced or are voluntarily replaced. The Interpretations Committee noted that in this case, at least some portion of the amount recognised for those awards should be regarded as part of the consideration transferred in the business combination. The Interpretations Committee recommended that the IASB amend IFRS 3 to address this.
January 2010	IFRS 4 <i>Insurance Contracts</i> and IAS 32 <i>Financial Instruments: Presentation</i> - Scope issue for Real Estate Investment Trusts (REIT)	A REIT is an entity with a special tax designation, which is usually required to distribute 90% of its total distributable income (TDI) to investors with the remaining 10% distributed at the discretion of management. The Interpretations Committee were asked whether the discretion to distribute the 10% met the definition of a Discretionary Participation Feature (DPF). The IFRIC noted that the definition of DPF requires the instrument to provide the holder with guaranteed benefits and that the DPF benefits are in addition to this. Further, there must be guaranteed benefits to the holder and such benefits are typically those present in insurance activities.
January 2010	IAS 18 <i>Revenue</i> - Receipt of a dividend of equity instruments	Current IFRS provides guidance on when revenue arising from dividends is recognised. The Interpretations Committee noted that when all ordinary shareholders receive a dividend of an investee's own equity instruments on a pro-rata basis, there is no change in financial position of any of the investors. Therefore the dividend is not recognised as revenue as it is not probable that there is an economic benefit that will flow to the investor.
January 2010	IAS 27 <i>Consolidated and Separate Financial Statements</i> - Combined financial statements and redefining the reporting entity	The Interpretations Committee received a request for guidance on whether a reporting entity can present financial statements, in accordance with IFRS, that include a selection of entities under common control, not just parent/subsidiary relationships. The Interpretations Committee noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of 'reporting entity' in the context of common control.
January 2010	IAS 38 <i>Intangible Assets</i> - Amortisation method	The Interpretations Committee received a request for guidance on the meaning of "consumption of economic benefits" in determining the amortisation method for a finite intangible asset. The methods considered were the straight line method and the unit of production method (including a revenue-based unit of production method). The Interpretations Committee noted that the determination of the amortisation method is a matter of judgment.

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