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Closing out 2008

This newsletter provides a high level overview of new and revised Standards and Interpretations that are effective for December 2008 and later accounting periods. Of the long list of pronouncements in issue at the date of this newsletter (see next page), only three Interpretations are required to be adopted for December 2008 year ends. Entities are, however, **generally** permitted to adopt new and revised Standards and Interpretations in advance of their effective dates (refer to individual Standards and Interpretations for details).

By necesssity, the following pages provide a very high level overview of the new and revised Standards and Interpretations – but, where applicable, we have provided links to past newsletters dealing with the specific Standard or Interpretation in more detail. These past newsletters are all available on www.iasplus.com. As always, entities should refer to the Standards and Interpretations themselves to identify all of the changes that may affect their particular circumstances.

Where a Standard or Interpretation is adopted in advance of its effective date, disclosure of that fact is generally required. Even where there is no intention to implement a new or revised requirement in advance of its effective date, entities need to be aware of such developments as soon as they are issued, in order to comply with the requirement included in IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors** to disclose in their financial statements the potential impact of Standards and Interpretations in issue but not yet effective.

Entities should exercise caution regarding early adoption of Standards and Interpretations, and should have regard to local endorsement and other legal processes. For example, in the European Union (EU), of the Standards and Interpretations listed on the next page, several have not been endorsed. For further information, refer to the EU Endorsement Status Report on www.efrag.org

In addition, entities should be wary of Standards and Interpretations where the requirements regarding early adoption are linked. In several cases, entities are not permitted to adopt a Standard or Interpretation in advance of its effective date without also adopting other Standards and/or Interpretations (refer to Individual Standards and Interpretations for details).

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New and revised Standards and Interpretations

The following is a complete list of new and revised Standards and Interpretations in issue at December 2008, and effective for 31 December 2008 year ends and later periods. All of the newsletters referred to may be found at www.iasplus.com/iasplus/iasplus.htm

Effective for 31 December 2008 year ends			
New Interpretations		**Effective for annual periods beginning on or after**	**IAS Plus newsletter**
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007	*December 2006*
IFRIC 12	Service Concession Arrangements	1 January 2008	*December 2006*
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	*July 2007*

Available for early adoption for 31 December 2008 year ends			
New Standards		**Effective for annual periods beginning on or after**	**IAS Plus newsletter**
IFRS 8	Operating Segments	1 January 2009	*December 2006*
Amendments to Standards			
IAS 23	Borrowing Costs	1 January 2009	*April 2007*
IAS 1	Presentation of Financial Statements	1 January 2009	*September 2007*
IFRS 3	Business Combinations	1 July 2009	*January 2008*
IAS 27	Consolidated and Separate Financial Statements	1 July 2009	*January 2008*
IFRS 2	Vesting Conditions and Cancellations	1 January 2009	*January 2008*
IAS 32 & IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	*February 2008*
IFRS 1 & IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	*May 2008*
Various	Improvements to IFRSs	Various	*May 2008*
IAS 39	Eligible Hedged Items	1 July 2009	*July 2008*
IAS 39 & IFRS 7	Reclassification of Financial Assets	1 July 2008 (see page 10)	*October 2008*
IFRS 1	First-time Adoption of Financial Reporting Standards	1 July 2009	*December 2008*
New interpretations			
IFRIC 13	Customer Loyalty Programmes	1 July 2008	*June 2007*
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	*July 2008*
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	*July 2008*
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	*December 2008*

Effective for 31 December 2008 year ends

IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
Effective 1 March 2007

IFRIC 11 clarifies the application of IFRS 2 **Share-based Payment** to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

The International Financial Reporting Interpretations Committee (IFRIC) concluded that when an entity receives services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. This is regardless of whether:

- the entity chooses or is required to purchase equity instruments to satisfy its obligation;
- the entity or its shareholder(s) grants the right; or
- the transaction is settled by the entity or by its shareholder(s).

Where a parent grants rights to its equity instruments to employees of its subsidiary, assuming the transaction is accounted for as an equity-settled share-based payment transaction in the consolidated financial statements, the subsidiary should measure the services received using the requirements for equity-settled transactions in IFRS 2, and should recognise a corresponding increase in equity as a contribution from the parent.

Where a subsidiary grants rights to equity instruments of its parent to its employees:

- the subsidiary has incurred a liability to transfer cash or other assets of the entity to its employees (being a liability to transfer equity instruments of its parent); and
- the subsidiary accounts for the transaction as a cash-settled share-based payment transaction.

IFRIC 12: Service Concession Arrangements
Effective 1 January 2008

IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads. The Interpretation does not address the accounting for the government (grantor) side of such arrangements. The Interpretation states that for arrangements falling within its scope (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator will recognise:

- a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
- an intangible asset (where the operator's future cash flows are not fixed – e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset (where the operator's return is provided partially by a financial asset and partially by an intangible asset).

IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Effective 1 January 2008

IFRIC 14 addresses three issues:

- when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of IAS 19 **Employee Benefits**;
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

The Interpretation concludes that an economic benefit, in the form of a refund or reduction in future contributions, is 'available' if the entity has an unconditional right to realise the benefit at some point during the life of the plan or when the plan is settled, even if the benefit is not realisable immediately at the end of the reporting period. The economic benefit available in the form of refunds or reductions should be measured, in accordance with the terms of the plan and statutory requirements, at the maximum amount available.

Should a minimum funding requirement exist, IFRIC 14 distinguishes between contributions that are required to cover:

a) an existing shortfall for past service on the minimum funding basis; and

b) the future accrual of benefits.

Under (a), the minimum contribution requirement relates to services already received by an entity. To the extent that the contributions payable will not be available for a refund or reduction in future contributions, an entity recognises a liability when the obligation to provide such contributions arises. The liability recognised will either reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of IAS 19 when the contributions are paid.

Under (b), an entity should determine the economic benefit available as a reduction in future contributions as the present value of the estimated future service cost in each year and the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

Available for early adoption for 31 December 2008 year ends

Note that where Standards or Interpretations are adopted in advance of their effective dates, disclosure of that fact is generally required. Where the Standards and Interpretations discussed below are not adopted for December 2008 year ends, preparers will need to have regard to the requirements of IAS 8.30, i.e. the requirement to consider and disclose the potential impact of Standards and Interpretations in issue but not yet effective.

Preparers will also need to have regard to local endorsement or other legal processes (see introduction to this newsletter).

IFRS 8: Operating Segments
Effective 1 January 2009

IFRS 8 supersedes IAS 14 **Segment Reporting**. IFRS 8 requires an entity whose debt or equity instruments are publicly traded to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Upon adoption of IFRS 8, the identification of an entity's segments may or may not change, depending on how the entity has applied IAS 14 in the past. IAS 14 required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. If under IAS 14 an entity identified its primary segments on the basis of the reports provided to the person whom IFRS 8 regards as the chief operating decision maker, those segments might become the 'operating segments' for the purposes of IFRS 8.

IFRS 8 requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance. In contrast to IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities. Nor does it require segment information to be prepared in conformity with the accounting policies adopted for the entity's financial statements. As a consequence, entities will have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

Under IFRS 8, additional entity-wide disclosures are prescribed that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.

Analyses of revenues and certain non-current assets by geographical area are required – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

IFRS 8 also introduces a requirement to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity's revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed.

Amendments to IAS 23 Borrowing Costs
Effective 1 January 2009

The amendments to IAS 23 eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

The amendments to IAS 23 are generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised Standard (1 January 2009, or any earlier date designated by the entity). Therefore, if an entity has previously followed an accounting policy of immediately recognising all borrowing costs as an expense:

- it is not required to retrospectively restate its financial statements for borrowing costs incurred on qualifying assets before the effective date of the revised Standard;
- nor is it required to apply the capitalisation policy to borrowing costs incurred subsequent to the effective date on projects that had commenced (i.e. that had met IAS 23's criteria for commencement of capitalisation) before the effective date.

IAS 1 (revised): Presentation of Financial Statements
Effective 1 January 2009

The text of IAS 1 has been substantially rewritten, with many changes in terminology, including changes to the titles of individual financial statements (e.g. a 'balance sheet' is now referred to as a 'statement of financial position'). The majority of the changes made are not substantive. The most significant effects of the amendments to the Standard are as follows:

- a new requirement has been introduced to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
- all entities must present a statement of comprehensive income;
- all items of income and expense (including those recognised outside of profit or loss) must be presented either:
  - in a single statement (a 'statement of comprehensive income'); or
  - in two statements (a separate 'income statement' and a 'statement of comprehensive income');

- entities are no longer permitted to present items of 'other comprehensive income' (e.g. gains and losses on revaluation of property, plant and equipment) separately in the statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity;

- entities are no longer permitted to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement; and

- new detailed requirements have been introduced regarding the presentation of items of other comprehensive income.

IFRS 3 (revised): Business Combinations
IAS 27 (revised): Consolidated and Separate Financial Statements
Effective 1 July 2009

IFRS 3(revised 2008) and IAS 27 (revised 2008) were published as a package in January 2008, together with consequential amendments to other Standards, most notably IAS 28 **Investments in Associates** and IAS 31 **Interests in Joint Ventures**.

The most significant changes introduced by the revised Standards include the following.

- Costs incurred to effect a business combination (e.g. finder's fees, advisory, legal, accounting, valuation, and other professional or consulting fees) are expensed in the period incurred. Costs incurred to issue debt or equity securities continue to be recognised in accordance with IAS 32 and IAS 39.

- Where the acquirer has a pre-existing equity interest in the entity acquired, it remeasures that previously-held interest to fair value as at the date of obtaining control, and recognises any resulting gain or loss in profit or loss.

- The term 'non-controlling interest' (NCI) replaces minority interest. At an acquisition date, the acquirer may choose, on a transaction-by-transaction basis, whether to measure NCI at fair value or at the NCI's proportionate share of the net identifiable assets of the entity acquired.

- Goodwill is measured at the acquisition date as the difference between:

  – the aggregate of (a) the acquisition-date fair value of the consideration transferred; (b) the amount of any NCI in the entity acquired; and (c) the acquisition-date fair value of any previously-held equity interest in the entity acquired; and

  – the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

- Once control is obtained, all subsequent increases and decreases in ownership interests that do not involve the loss of that control are treated as transactions among owners. Goodwill is not remeasured or adjusted. Instead, any difference between the change in the NCI and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

- Consideration for an acquisition, including contingent consideration, is measured at fair value at the acquisition date. Changes resulting from events after the acquisition date (e.g. the acquiree meeting an earnings target or reaching a specified share price) are recognised in profit or loss.

- The revised IAS 27 requires an entity to attribute the NCI's share of profit or loss to the NCI even if this results in the NCI having a deficit balance.

- When a parent ceases to have control of a subsidiary, the parent derecognises all assets, liabilities and NCI at their carrying amount. Any interest retained in the former subsidiary is recognised at its fair value at the date control is lost. Any gain or loss arising on loss of control is recognised in profit or loss.

- Other important changes arising from the revision of IFRS 3 include:

  – widening the scope to include business combinations between mutual entities and business combinations achieved by contract alone;

  – the introduction of specific guidance on whether replacement share-based payment awards are part of the consideration transferred, and measurement of reacquired rights on initial recognition; and

  – clarification that an entity needs to reassess the classification of contractual arrangements on acquisition with the exception of insurance contracts and leases (for which the original classification as finance or operating is retained). This is particularly relevant when looking at financial instruments, embedded derivatives and hedging relationships.

The transitional provisions for these Standards are complex, and readers should refer to the Standards for details. IFRS 3(2008) is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier adoption is permitted – although the revised Standard may not be applied in an annual reporting period that begins before 30 June 2007.

IAS 27(2008) is effective for annual periods beginning on or after 1 July 2009, with early application permitted.

If an entity applies IFRS 3(2008) before 1 July 2009, it must apply IAS 27(2008) at the same time, and vice versa.

Amendments to IFRS 2 – Vesting Conditions and Cancellations
Effective 1 January 2009

The amendments to IFRS 2 clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement.

Vesting conditions are the conditions imposed under a share-based payment arrangement that the counterparty (whether an employee or otherwise) must satisfy in order to receive cash, other assets or equity instruments of the entity. The amendments:

- clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;

- restrict the definition of vesting conditions to include only service conditions and performance conditions; and

- amend the definition of a performance condition to require the completion of a service period in addition to specified performance targets.

All features of a share-based payment arrangement other than service conditions and performance conditions are considered to be non-vesting conditions.

IFRS 2 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity should take into account:

- all non-vesting conditions (i.e. all conditions other than service and performance conditions); and

- vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price).

The revisions to IFRS 2 also clarify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately. Any payments made with the cancellation (up to the fair value of the equity instruments) are accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation

Effective 1 January 2009

The amendments to IAS 32 address the classification of puttable financial instruments and obligations arising only on liquidation, with the object of providing a "short-term, limited scope amendment" designed to avoid outcomes arising under the general principles of IAS 32 that were counter-intuitive.

Following the revisions, puttable financial instruments are presented as equity only if all of the following criteria are met:

(i) the holder is entitled to a pro-rata share of the entity's net assets on liquidation;

(ii) the instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features;

(iii) the instrument has no other characteristics that would meet the definition of a financial liability; and

(iv) the total expected cash flows attributable to the instrument over its life 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 (excluding any effects of the instrument itself). Profit or loss or change in recognised net assets for this purpose is as measured in accordance with relevant IFRSs.

In addition to the criteria set out above, the entity must have no other instrument that has terms equivalent to (iv) above and that has the effect of substantially restricting or fixing the residual return to the holders of the puttable financial instruments.

The criteria for equity classification for instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation are the same as above except (iii) and (iv) do not apply. Criterion (iii) does not apply because, if there is a component of the instrument that meets the definition of a liability (other than the right at liquidation itself), this will be recognised separately as a financial liability and the instrument will be presented as a compound instrument, i.e. with both liability and equity components. Criterion (iv) does not apply because should any cash flows be paid to the holder of the instrument during the instrument's life, this will reduce the amount ultimately payable at liquidation.

IAS 1 has been amended by the introduction of new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Effective 1 January 2009

The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time, and they address concerns that the previous requirement to retrospectively determine cost and to apply the cost method in accordance with IAS 27 could not, in some circumstances, be achieved without undue cost or effort for first-time adopters.

Following revision, IFRS 1 permits a first-time adopter that has chosen to account for such investments at cost, to measure that cost using a 'deemed cost' approach. This deemed cost would be determined (on an asset-by-asset basis) as either:

- fair value (determined in accordance with IAS 39) at the entity's date of transition to IFRSs in its separate financial statements; or

- the previous GAAP carrying amount of the investment at that date.

Prior to amendment, IAS 27 required a parent to recognise distributions received from the pre-acquisition accumulated profits of a subsidiary as a reduction in the cost of the investment. The amendments have removed from IAS 27 the requirement to distinguish between pre- and post-acquisition dividends.

The Standard now applies the general requirements of IAS 18 **Revenue** and requires that dividends received from subsidiaries, jointly controlled entities and associates be recognised in profit or loss when the entity's right to receive the dividend is established.

To address concerns that the new rules for recognition of dividends could result in inappropriate recognition of profit, IAS 36 **Impairment of Assets** has been amended by the introduction of a new indicator of impairment. In assessing whether a full impairment test is required for an investment in a subsidiary, jointly controlled entity or associate, an entity is required to consider whether it has recognised a dividend from the investment and evidence is available that:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or

- the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared.

IAS 27 has also been amended to deal with circumstances where a parent reorganises the structure of its group by establishing a new entity as its parent. In such reorganisations, the new parent obtains control of the original parent by issuing equity instruments in exchange for equity instruments of the original parent. Under the new rules, in a reorganisation that meets specified criteria, the new parent measures the cost of its investment in the previous parent 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.

Improvements to IFRSs (May 2008)
Effective date: various (mostly 1 January 2009)

This is the first Standard published under the IASB's annual improvements process which is intended to deal with non-urgent, minor amendments to Standards. The Standard includes 35 amendments – which are individually dealt with in our *May 2008* newsletter.

Amendments to IAS 39 – Eligible Hedged Items
Effective 1 July 2009

The amendments provide clarification on two issues in relation to hedge accounting.

Identifying inflation as a hedged risk – inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument. This may be the case where an entity acquires or issues inflation-linked debt. In such circumstances, the entity has a cash flow exposure to changes in future inflation that may be cash flow hedged. The amendments, therefore, do not permit an entity to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge as the Board considers that such a component is not separately identifiable and reliably measurable. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged.

Hedging with options – IAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The amendments make clear that the intrinsic value, not the time value, of an option reflects a one-sided risk and therefore an option designated in its entirety cannot be perfectly effective. The time value of a purchased option is not a component of the forecast transaction that impacts profit or loss. Therefore, if an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise. Alternatively, an entity may choose to exclude time value as permitted by the Standard in order to improve hedge effectiveness. As a result of this designation, changes in the time value of the option will be recognised immediately in profit or loss.

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets
Effective 1 July 2008

The amendments to IAS 39 permit reclassification of certain non-derivative financial assets recognised in accordance with IAS 39. A financial asset within the scope of these amendments can only be reclassified out of the fair value through profit of loss (FVTPL) or available-for-sale (AFS) classifications if specified criteria are met. The criteria vary depending on whether the asset would have met the definition of 'loans and receivables' (L&R) had it not been classified as at FVTPL or AFS at initial recognition.

A debt instrument that was classified as held for trading at initial recognition may be reclassified out of FVTPL if the asset is not intended to be sold in the near-term, if it meets the definition of L&R and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

A debt instrument that was designated as AFS at initial recognition may be reclassified to L&R if it meets the definition of L&R and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Any other debt instrument, or any equity instrument, may be reclassified from FVTPL to AFS, or from FVTPL to HTM (in the case of debt instruments only), if the financial asset is no longer held for the purpose of selling in the near term – but only in 'rare' circumstances. In its press release accompanying the amendments the IASB acknowledged that market conditions in the third quarter of 2008 are a possible example of a 'rare' circumstance.

All reclassifications must be made at the fair value of the financial asset at the date of reclassification. Any previously recognised gains or losses cannot be reversed. The fair value at the date of reclassification becomes the new cost or amortised cost of the financial asset, as applicable.

The existing requirements in IAS 39 for measuring financial assets at cost or amortised cost apply after the reclassification date (with one exception – see below). For reclassifications out of AFS, IAS 39.54 requires the amounts previously recognised in other comprehensive income (OCI) to be reclassified to profit or loss either through the effective interest rate (if the instrument has a maturity) or at disposal (if the instrument has no maturity – i.e. it is perpetual). Amounts deferred in equity may also need to be reclassified to profit or loss if there is an impairment.

The one exception to the existing measurement requirements is for reclassified debt instruments. If, after reclassification, an entity increases its estimate of future cash flows, the carrying amount is not adjusted upwards as is currently required by IAS 39. AG8 for changes in estimates of cash flows. Instead, a new effective interest rate is determined and is applied from that date forward. Hence, the increase in the recoverability of cash flows is recognised over the expected life of the financial asset.

These amendments are effective from 1 July 2008. For reclassifications made before 1 November 2008, an entity can reclassify a financial asset with effect from 1 July 2008 (but not before), or any date thereafter until 31 October 2008. Such assets must be identified and documented before 1 November 2008. Any reclassification made on or after 1 November 2008 (irrespective of when the accounting period started) is effective from the date of reclassification i.e. reclassifications are made on a real-time basis.

IFRS 1 (revised): First-time Adoption of IFRSs
*Effective 1 July 2009**

The objective of the November 2008 revision of IFRS 1 was to improve the structure of the Standard – no new or revised technical material has been introduced. The revisions are designed to make the Standard clearer and easier to follow by reorganising and moving to appendices most of the Standard's numerous exceptions and exemptions. The improved structure is also intended to better accommodate future changes to the Standard.

The Board has also taken the opportunity to remove out-of-date transitional provisions and make some minor wording amendments.

* Amended from 1 January 2009 at the December 2008 meeting of the IASB

IFRIC 13: Customer Loyalty Programmes
Effective 1 July 2008

This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction. Common examples are airline and hotel loyalty schemes and credit card reward schemes. IFRIC 13 addresses the accounting by the entity that grants the award credits. It applies to customer loyalty award credits that:

- entities grant to their customers as part of a sales transaction under IAS 18 **Revenue** (a sale of goods, rendering of services or use by the customer of entity assets); and
- subject to meeting any further qualifying conditions, the customers can redeem for free or discounted goods or services in the future.

IFRIC 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and to allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them. For arrangements falling within its scope, IFRIC 13 explicitly prohibits the alternative treatment of recognising the full consideration received as revenue, with a separate liability for the cost of supplying the awards.

IFRIC 15: Agreements for the Construction of Real Estate
Effective 1 January 2009

The Interpretation addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements within the scope of IFRIC 15 are described as 'agreements for the construction of real estate', and may include the delivery of other goods or services. IFRIC 15 addresses two (related) issues:

- determining whether an agreement for the construction of real estate is within the scope of IAS 11 **Construction Contracts** or IAS 18 **Revenue**; and

- when revenue from the construction of real estate should be recognised.

The Interpretation provides limited additional guidance on the distinction between 'construction contracts' (falling within the scope of IAS 11) and other agreements for the construction of real estate (falling within the scope of IAS 18). Agreements involving construction of real estate will need to be examined carefully to determine whether they should be accounted for in accordance with IAS 11 or IAS 18. Entities most affected are likely to be those that undertake construction of multiple-unit developments.

For some agreements falling within the scope of IAS 18 and involving the supply of goods, the Interpretation has introduced a new concept, i.e. that IAS 18's revenue recognition criteria may be met 'continuously as construction progresses'. In such circumstances, revenue is recognised by reference to the stage of completion of construction, using the percentage of completion method.

IFRIC 16: Hedges of a Net Investment in a Foreign Operation
Effective 1 October 2008

IFRIC 16 clarifies three main issues, as summarised below.

- Whether risk arises from (a) the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from (b) the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. IFRIC 16 concludes that the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.

- Which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. IFRIC 16 concludes that the hedging instrument(s) may be held by any entity or entities within the group (other than the foreign operation that is itself being hedged).

- How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment. IFRIC 16 concludes that while IAS 39 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 must be applied in respect of the hedged item.

IFRIC 17: Distributions of Non-cash Assets to Owners
Effective 1 July 2009

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The specific questions addressed in the Interpretation are:

- when should the entity recognise the dividend payable?
- how should the entity measure the dividend payable?
- when the entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. This accounting treatment will result in a change in practice in many jurisdictions.

The Interpretation does not apply to distributions of non-cash assets where the asset is ultimately controlled by the same party or parties before and after the distribution (e.g. distributions of non-cash assets between entities under common control) which is the most common circumstance in which such distributions occur.

The Interpretation has resulted in consequential amendments to IFRS 5 **Non-current Assets Held for Sale and Discontinued Operations** regarding the appropriate treatment of the non-cash assets held for distribution.

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