

IFRS News

Shedding light on the IASB's activities*

IFRS News – Issue 41
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In this issue...

- 1 Issue of the month**
Debt versus equity
- 2 Revised IAS 36**
Financial reporting
of goodwill
- 4 Interview**
SAC chairman
Nelson Carvalho
- 7 IFRIC insight**
Member Ian Wright
on clarifying the
standards
- 9 IFRIC update**
IFRS diary
- 10 Contacts**

Issue of the month

Debt versus equity: update on IFRIC position

The classification of financial instruments as debt or equity instruments can be complex. The classifications resulting from IAS 32 can also be counter-intuitive and differ from those under tax laws or other regulatory frameworks. It is therefore not surprising that IFRIC has received a number of requests for interpretations of debt versus equity classification.

IFRIC rejected a request in March 2006 for an interpretation on the classification of two common structures – step-up instruments and linked instruments – on the grounds that IAS 32 is clear. This article looks at the IAS 32 principles that are relevant to these instruments and IFRIC's decisions on them. It only considers instruments that are settled in cash and does not cover instruments that may or will be settled in the issuer's own equity.

Debt/equity classification principles in IAS 32

A key feature of a financial liability under IAS 32 is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or liabilities under conditions that are potentially unfavourable.

An instrument that contains no such contractual obligation is classified as equity. This will be the case when the entity has 'discretion' over whether to make any cash payments. A significant issue is therefore what is meant by discretion? IAS 32 is clear that whether discretion exists is not affected by the entity's intention or ability to make distributions in the future, the amount of the issuer's reserves, any economic compulsion to make distribution or the ranking of the instrument on the liquidation of the entity.

IAS 32 also requires an instrument to be classified in accordance with its substance rather than its legal form; for example, a share can be classified as a liability under IAS 32 if it obliges the entity to make payments. A note or bond can be classified as equity if it contains no such obligation. However, anything outside the contractual terms is not considered when classifying an instrument under IAS 32. It is only the 'substance' of the contractual terms of a financial instrument – and whether these give rise to a contractual obligation – that should be taken into consideration.

Applying principles to step-up instruments and linked instruments

Step-up instruments

Example

In 2X06, an entity issues perpetual callable preference shares with a 5% dividend whose payment is mandatory if dividends are paid on ordinary shares. Dividends on ordinary shares are payable at the discretion of the issuer. The instrument includes a 'step-up' dividend clause that increases the dividend to a pre-determined rate in 2X10 (for example, to 10% which is expected to be significantly above market rates), and a call option for the issuer to redeem the instrument in 2X10. The entity is expected to call the instrument in 2X10 so as to avoid the above market payments (this is commonly referred to as 'economic compulsion').

IFRIC conclusion

The instrument should be classified as equity under IAS 32. An economic incentive to make distributions or redeem an instrument is not a contractual obligation. The entity could choose not to redeem the instrument and to pay no distributions on it in perpetuity. Whilst a consequence of this would be that the entity could not pay an ordinary dividend, this does not amount to a contractual obligation.

Linked instruments

Example

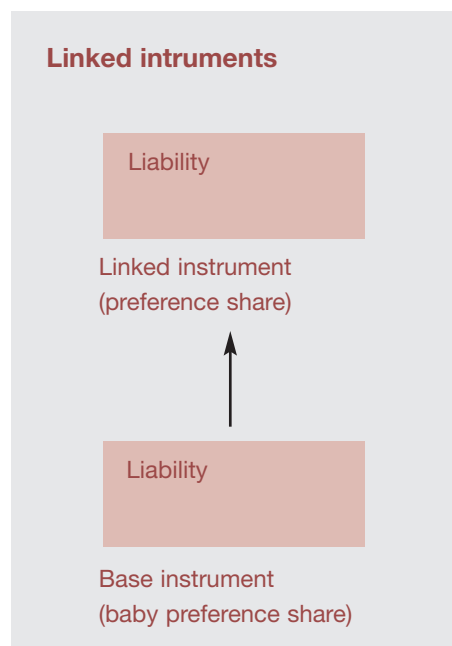
An entity issues perpetual callable preference shares (the 'base instrument') that must pay dividends if interest is paid on another instrument (the 'linked instrument') issued by the entity. The linked instrument is a liability, as its terms oblige the entity to make interest payments.

IFRIC conclusion

The base instrument is a liability, as the linkage to the linked instrument creates a contractual obligation for the entity to pay dividends on the base instrument. The linked instrument (sometimes called a 'baby preference share') frequently has a small face amount compared to the base instrument. IFRIC stated that the insignificant value does not impact the liability classification. It does not eliminate the fact that the issuer has no discretion over the payment of the dividend on the base instrument (ie, the linking has created a contractual obligation in this fact pattern).

Comment

The addition of a linked instrument is one of the most commonly used practices to achieve liability classification for a base instrument that would otherwise be classified as equity. Management may wish to obtain liability classification when



it has hedged some of the future payments on the base instrument, as hedge accounting cannot be used if the hedged base instrument is classified as equity.

Conclusion

The IFRIC decisions outlined above show that it is critical to understand all the features, terms and conditions of an instrument in order to ensure its appropriate classification as debt or equity. An economic incentive to make payments – no matter how great – does not amount to a contractual obligation and is therefore not sufficient for liability classification.

Revised IAS 36



Financial reporting of goodwill

The headline two years ago when the Board published revised IAS 36, Impairment of Assets, was 'No more amortisation of goodwill'. However, other details have proved more difficult and have shifted the way management approaches accounting for goodwill. Caroline Woodward examines some of the practical issues arising from the new requirements.

Goodwill was accounted for centrally as a lump sum and amortised, typically over a period of 20 years. IFRS 3 has driven down the quantum of goodwill as many more intangible assets are recognised that were historically subsumed within goodwill under IAS 22.

Management has to explain what the residual balance of goodwill represents. IAS 36 requires the allocation of the residual goodwill to the parts of the business expected to benefit from the acquisition in which the goodwill arose, to test it for impairment and to disclose

it in the financial statements at that level.

Each of these new requirements has posed challenges for many entities. Let us look at each in turn, starting with what goodwill represents. Goodwill has always

been the balancing figure, and few people have ever considered what it represents. It still is the balancing figure, albeit a smaller one than under the previous regime, but now management must disclose what it represents. Goodwill is likely to represent assets that do not meet the recognition criteria, (such as the workforce), synergies that the acquiring entity expects to achieve and overpayments. No management team has ever disclosed an overpayment at the date of acquisition – or done so and survived the next AGM. However, their existence is not uncommon, hence the requirement in IAS 36 to review goodwill arising on an acquisition as soon as possible after the acquisition date so that overpayments are identified and written off immediately.

The residual amount of goodwill, once established, must be allocated to the parts of the business expected to benefit from the acquisition. The level of allocation must be the lowest level at which management monitors goodwill and cannot be larger than a segment (IAS 36.80). The goodwill impairment test is then performed at this level.

Practical issues

This sounds straightforward. What are the practical issues? Management will usually know which parts of the existing business are likely to benefit from the acquisition, as this will have been one of the considerations during the planning process. It is less likely that management's expectations can be exactly mapped to the goodwill balance. If the full value of expected synergies has been paid for, possibly as a result of a bidding war, demonstrating that the acquisition has been a success will be a challenge.

The value of the components of goodwill can usually be established to assist in the allocation process. Management likes to quote synergy values to the media. The value of the workforce and some other assets that do not meet the recognition criteria should be established in order to value

the identifiable intangible assets. These underlying 'assets' serve as a useful basis for allocating the components of goodwill to the cash-generating units (CGUs) or groups of CGUs expected to benefit from the deal. The logic of doing so is clear. If synergies paid for are expected to be achieved throughout the group, leaving the entire goodwill balance in the part of the group that has absorbed the acquired business is likely to lead to impairment. The full value of the goodwill will be measured against less than the full value of the benefits.

At what level does management monitor goodwill?

Goodwill is not an asset that generates cash flows; management tends to regard it as a sunk cost. Management will monitor whether an acquisition is performing as planned but will not typically monitor goodwill. However, an appropriate level must be identified for the goodwill impairment test. The allocation of goodwill discussed above will typically spread the goodwill balance quite widely across the group. The monitoring of the acquired business' performance, in contrast, normally takes place at a more localised level. Consider also the acquisitive company whose management is monitoring goodwill arising on a number of transactions. It is impractical to consider separately the goodwill on each transaction. In addition, each transaction is likely to affect the benefits expected from earlier deals; this makes an individual monitoring exercise of limited relevance for management and external users of the financial statements.

These practical considerations often lead to management teams allocating goodwill at segment level, the highest level permitted under IAS 36. However, this does not entirely solve their problems. Segment reporting under IAS 14 is a disaggregation of an entity's consolidated financial statements based on products and services or on geographical areas. The segments may bear little relation to the way in which

management runs the business; this could lead to practical difficulties in identifying the financial data necessary to perform the goodwill impairment test.

The IASB has recently issued ED 8, Operating Segments, its proposed replacement for IAS 14. This exposure draft, part of the IASB's and FASB's convergence project, seeks to bring segment reporting under IFRS more closely in line with the practice under US GAAP. The impact of the proposals in ED 8 on goodwill impairment testing is mixed.

Segment reporting under the proposals in ED 8 will be more closely aligned with the way in which the business is managed. This should make the information reported more relevant to external users of the financial statements and easier for management to prepare. However, the proposals are likely to result in management carrying out more goodwill impairment tests than at present.

The highest level at which goodwill can be allocated and reviewed for impairment under IAS 36 is the reporting segment. This is quite a high level within the business; most entities only have a few reporting segments. A reporting segment under ED 8 may be an operating segment or a group of operating segments. The consequential amendment proposed for IAS 36 is that the level to which goodwill is allocated can be no higher than an operating segment – potentially one level below the current reporting segment.

It is likely that, if the proposals in ED 8 are approved, the impact on goodwill impairment testing will benefit both preparers and users. Users will receive more relevant information, which will enhance their ability to determine the consequences of management actions on the goodwill balances. Preparers are likely to be carrying out more goodwill impairment reviews but will benefit from the data required being more readily available to those who need to carry out the reviews.



Nelson Carvalho – SAC chairman

In July last year, Nelson Carvalho was appointed chairman of the IASB's Standards Advisory Council – a group of individuals and representatives of organisations affected by the Board's work that provides advice on a range of financial reporting issues. He talks to *IFRS News* about his own objectives while in office and those of the SAC.

What influence does the SAC have, and what requests it is making of the Board?

The SAC never votes; individuals speak on their own behalf, not on behalf of the constituencies they come from. My main job is therefore to get them to speak their minds and express their personal opinions.

We comment on issues ranging from agenda priorities to approaches to particular accounting questions that require a standard. The SAC is a very representative cross-section of IFRS stakeholders, composed of multi-regional and multi-disciplinary parties from all over the world and from all sectors: preparers, analysts, auditors, academics, consultants, and commercial and investment bankers. Among the members and observers, we have regulators and representatives of the UN and the EU, for example. As a result, we bring a broad range of views.

We are considering how we can best advise the Board on strategic issues, such as its long-term agenda and timing; for example, ensuring that due process is respected without causing delays to the agenda. We are not here to get involved in the detail of the technical discussions.

What level of authority does the SAC have?

It should never be compared to an 'executive board' – this is not the SAC's role. There are people who would like the SAC to have a 'do/don't do' authority, but this is not our mandate. We are advisers, and our authority comes mainly, if not exclusively, from the quality of the advice we offer.

To ensure the Board is listening to our advice, we use two approaches:

1. I observe virtually all Board meetings

– either in person or watching on the web – to make sure that the debates take into consideration the views of the SAC members.

2. The 'Basis for conclusions' section of each standard is where explanations are given for the final decisions, and SAC members may look here for answers to their suggestions and advice. Remember, the Board is solely responsible for the final quality of the standards, and neither the trustees nor the SAC (in fact, nobody) has the authority to tell the Board what to do.

In practice, the SAC plays a considerable role in pushing to have projects included on the Board's agenda and in influencing the Board's priorities. The SME project is

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an example – I believe that it is on the Board's agenda, and has reached the stage it is at, precisely because the SAC strongly requested it. And it is fair to say that the SAC reflected a worldwide call for such a standard.

What other specific areas would you like the Board to address?

We have four major sensitive and pragmatic areas of concern. First is the risk of different interpretation of the standards around the world. IFRIC is clarifying a number of accounting questions about the standards at global level, but divergent national interpretation is a real danger. To

mitigate this, IFRIC processes and the Trustees' approach to the matter of interpretations need to be rethought in broader terms. I cannot say right now what the right solution would be, but the issue needs to be addressed.

A second challenge is education. Accounting education needs to be improved just about everywhere, with degrees of effort varying from country to country. What may need to be improved in the US or Japan, for instance, may differ from what needs to be improved in the UK, France or Latin America. But I have so far found no single country where one could say, 'There is nothing we need to improve in our accounting education'.

I don't see the need to improve accounting education as being only among accountants. I am convinced that the degree of basic understanding of accounting needs improving also among economists, financial experts and lawyers.

Thirdly, enforcement. There are around 100 countries mandating, permitting or moving towards IFRS but if there is no consistent enforcement, the implementation of the standards will not be uniform. A key role will be played by regulators and auditors, and the challenge is to avoid the risk of turning preparers into the 'hostages' of those enforcers. In my view, the task of enforcing IFRS properly is much more difficult than it has been to write them.

Finally, the use of plain English in the standards is a major concern. It is impossible to believe that standards are being translated in, say, Russia, China and Brazil exactly as they are written in English, because of some of the English jargon that is used. Some of the terms used in the context of financial instruments, for example, simply do not exist in other languages. We cannot have

consistent application of the standards unless clear language is used to enable the non-English speaking nations to do faithful translations.

We have reported to the trustees on these issues, raising the question of whether a mechanism needs to be put in place to coordinate the efforts to resolve them.

What should the Board's standard setting priorities be?

A number of SAC members believe that a top priority for the Board is to make greater efforts towards convergence. They believe the measure of the Board's success to be the elimination of the requirement to reconcile with US GAAP. Some SAC members consider the major current projects to be the Conceptual Framework, performance reporting and SMEs; others consider fair values a key issue.

We would like to see fair value as the basis of measurement for all financial assets and liabilities. We have a good

start with fair value accounting being applied to financial instruments, and this should be expanded. However, there are serious methodology issues that need to be resolved before this is possible. We shouldn't try and expand the use of fair value too quickly, as we do not want to introduce unnecessary volatility into net worth and earnings figures. But I think the market agrees that historical cost is no longer a useful measurement – what use is it to know the cost of everything but the value of nothing?

What do you want your legacy to be as chairman of the SAC?

The referee in football (soccer) sets the tone regarding players' compliance with the rules – he or she may be more or

Divergent national interpretation is a real danger. IFRIC processes need to be re-thought in broader terms

less severe in the interpretation of the rules during a particular game. Football fans universally believe that the best referee is the one who goes unnoticed. After the game ends, people discuss who played better without blaming the referee for the final score. That's a good referee, and that's my dream – to have the SAC in the future remembered by the high quality of advice it provided to the Board, not by the personality of its chairman.

An ineffective chairman cannot hinder the high-quality output of his/her committee if the members are sound; an expert chairman cannot lead a poor group of members to produce high-quality output. The members need to be of good quality for the chairman to have a beneficial influence. The trustees last year did what I consider a great job in appointing our council members, and I am most fortunate to have high-quality members in the SAC that I chair. I will be pleased if my legacy is to have made the difference in helping the Board to set its priorities and achieve its goals.

Will the rest of South America follow Brazil's move towards convergence with IFRS?

South America is deeply affected by the geo-economic and political influence of the US capital market. All of our major companies are listed on the New York Stock Exchange. Therefore, the first need for South American companies raising capital abroad is to see the reconciliation with US GAAP dropped.

Second, financial reporting in South America, contrary to (most) developed countries, is influenced by tax rules. Tax and financial reporting must be formally separated (and most of the time it requires a change in law) if IFRS is to become a reality in this part of the world. Not much different from requiring 25 EU countries to change their company laws in order to adopt IFRS.

Will the change have the same impact on your continent as it did in Europe?

For all of our largest corporations, which are used to preparing US GAAP financial statements due to their NY listings, the pain will not be unbearable. For the majority of the large and medium-sized companies that have never known anything other than Brazilian (tax-orientated) GAAP, it will hurt much more. It is more than a change in the chart of accounts; it is a change in the way companies are managed. It may take, in some cases, more than one generation of business people and accountants before we absorb the cultural changes provoked by implementation of IFRS.

A major concern is over the cultural challenge of implementing IFRS in places like South America. We have inherited a system of civil law, which allows less room for interpretation than in cultures that apply common law (such as some Anglo Saxon countries). We do not base our system entirely on principles and do not therefore have the desired flexibility. Therefore, if Brazil moves completely to IFRS, the capital market will be heavy-handed in its enforcement, which is in conflict with the spirit in which IFRSs are written. For example, if an entity turns out

Nelson Carvalho – biography

- Professor of finance and accounting at the University of São Paulo;
- Board member at Banco Nossa Caixa and Grupo Orsa;
- Arbitrator for the International Court of Arbitration of the International Chamber of Commerce and for the Court of Arbitration of the National Association of Financial Institutions in Brazil;
- Former head of banking supervision of the Central Bank of Brazil;
- Former commissioner of the Brazilian Securities and Exchange Commission;
- Member of the SAC since 2001; chairman since July 2005;
- Member of the Consultative Advisory Group of the IAASB.

to have inaccurately calculated dividends, a shareholder may seek redress via the courts. The courts in the short term will not be sufficiently educated in the spirit in which IFRS is written to be able to decide the case. If you adapt common law principles to a civil law environment, the outcome could be a disaster.

However, there are signs of movement towards full adoption of IFRS in Brazil. In March, the Central Bank of Brazil issued a ruling determining procedures to change its requirements so that all banks that are legally constituted in Brazil – state or privately owned, domestic or foreign – may have to

prepare their financial statements for the year ending 31 December 2010 under IFRS. This will be a tremendous boost not only for my country's banking industry, but for our capital market as a whole, and I believe it will also have a positive impact on the region as well.

SAC members

- **Nelson Carvalho**, professor, University of São Paulo, Brazil, financial consultant, private investment banker
- **Benoît Antoine Atangana Onana**, president, Institute of Chartered Accountants of Cameroon; senior partner, African Consulting Enterprise
- **Darrel Scott**, financial officer, FirstRand Bank, South Africa
- **Judith Downes**, chief operating officer, institutional division, ANZ Bank, Australia
- **Wang Jun**, secretary-general, China Accounting Standards Committee
- **PM Kam**, group financial controller, Jardine Matheson, Hong Kong
- **Shailesh Haribhakti**, managing partner, Haribhakti & Co, CEO, Haribhakti Group, India
- **Eiko Tsujiyama**, professor, Waseda University, Japan
- **Yoshiki Yagi**, board director and chairman of the audit committee, Hitachi, Japan
- **Suk-Jun Lee**, executive director, Samsung Economic Research Institute, Korea
- **Rifaat Ahmed Abdel Karim**, secretary-general, Islamic Financial Services Board
- **Danny Teoh**, managing partner, KPMG Singapore
- **José Antonio Alvarez**, chief financial officer, Group Santander, Spain
- **Sarah Deans**, vice president, corporate research, head of accounting and valuation research, JP Morgan, UK
- **Anna di Michele**, director, products & services – active advisory, UBS, Italy
- **Patrice Marteau**, chief corporate officer, PPR, France
- **Alberto Giussani**, partner, PricewaterhouseCoopers, Italy
- **Mauro Grande**, director, financial stability and supervision, European Central Bank
- **Ingebret Hisdal**, managing partner, Deloitte Norway
- **David Lindsell**, global director, IFRS services, Ernst & Young UK
- **Heinz-Joachim Neubürger**, executive vice president and CFO, Siemens
- **Jochen Pape**, member of the management board, PwC Germany, head of international financial reporting centre, PwC continental Europe
- **Vladimir Preobrazhenskiy**, deputy general director for economics and finance, CFO, Siberian Coal Energy Company, Russia
- **Hugo Schaub**, group controller and member of the group management board, UBS, Switzerland
- **Kees Storm**, director of Laurus, Pon Holdings, Inbev, KLM, AEGON and Baxter International
- **Hector Estruga**, member, CENCYA (special audit and accounting standards committee), Argentine Federation of Professional Councils in Economic Sciences
- **Philippe Danjou**, member of CESR-FIN's financial reporting committee; director, corporate accounting, Autorité des Marchés Financiers
- **Hector Vela Dib**, corporate financing director, Cemex
- **Adir Inbar**, chairman, board of the Institute of Certified Public Accountants in Israel; professional leader and senior audit partner, Deloitte Israel
- **Frank Brod**, corporate vice president and controller, Dow Chemical Company
- **Colleen Cunningham**, president and CEO, Financial Executives International, US
- **Trevor Harris**, MD of valuation, accounting and enterprise risk, Morgan Stanley, US
- **Pat McConnell**, senior managing director, Bear, Stearns, US

International organisations and their representatives

- Arnold Schilder, **Basel Committee of Banking Supervisors**
- Tomoko Amaya, **International Association of Insurance Supervisors**
- Ian Ball, **International Federation of Accountants**
- Kenneth Sullivan, **International Monetary Fund**
- John Carchrae and Christoph Ernst, **International Organization of Securities Commissions**
- Tatiana Krylova, **United Nations Conference for Trade and Development**
- Charles McDonough, **World Bank**

Observers

- European Commission
- Financial Services Agency of Japan
- US SEC



IFRIC (part 1) – clarifying the standards

PwC's global IFRS leader Ian Wright has been a member of IFRIC since December 2001. In this first interview in a two-part series, he talks to *IFRS News* about the role of the committee and its challenges. Next month, he looks at the dangers of local interpretation.

Is it possible to avoid the problems that create the need for an interpretation?

Simple standards based on clear principles and with few or no exceptions would need less guidance and give rise to relatively little need for interpretation. However, the reality of many of the IFRS standards that have been produced to date is that they contain a range of principles and some bright-line rules.

The more complex you make the standards, the more people find them confusing, and the more you spend time on guidance and interpretations. For example, IAS 39 has several different ways of recognising and measuring financial assets, so preparers have to work out which method they can use and be in compliance with the standard. Hence demands arise for interpretation.

One thing we have tried to do is keep the level of interpretation and guidance to a minimum. There is a limit to how many new issues people can cope with at any one time, and the majority of the market has been dealing with a completely new book of standards as they move from national GAAPs to IFRS. Their burden is great enough already.

It's not just a question of the numbers. I would not like to see a proliferation of interpretations in future years when there is less annual change in the standards. In an ideal world, standards should be clear enough on their own to be able to determine easily what is permitted and what is not.

Have more recent standards given rise to more or less interpretation?

So far it has not been possible to distinguish between the standards issued by the current IASB from the work of its predecessor, the IASC. The majority of the issues that have been

looked at by IFRIC relate to IAS 39, Financial Instruments, IAS 19, Employee Benefits, and IFRS 2, Share-based Payments.

What these standards have in common is more than one accounting model in an area of accounting that is generally seen as controversial and disliked in practice. For example, there is a dramatic difference between defined benefit and defined contribution accounting, which places great pressure on the definitions. Similarly, IFRS 2 contains more than one model for share-based payments depending on whether they are settled in shares or cash. Any standard that starts off with multiple models is going to be challenging. We currently have three or four financial instrument issues on our agenda.

Is there an alternative to issuing interpretations?

It depends on this issue. If there is a lack of clarity that can only be solved through additional principles or guidance, an interpretation is the only way forward. However, there are times where a simple change to a standard would have the effect of reducing rather than increasing the literature at the same time as improving the result – to me, this is the better outcome.

Sir David Tweedie has spoken several times to IFRIC members about taking the latter route, but IFRIC's suggestions about amending standards seem not to be supported by Board members in practice. For example, a recommendation to change IAS 32 for a cross-currency convertible bond issue was recently rejected. I find this frustrating and believe that the Board needs to devote a significant proportion of its time to improving the existing standards. For example, there is an unexplained sentence in IAS 17, Leases, that overrides the principle that a finance

lease exists when substantially all the risks and rewards are held by the lessee. The best outcome would be to delete six words so that all leases were treated in the same way, and not write more guidance as IFRIC has found it had to do.

How do you keep the number of interpretations to a minimum?

You need to test whether additional guidance will make a difference in practice. We try only to progress to interpretation where there is a widespread problem and the variation in practice has the potential to undermine the usefulness of financial statements.

There have been relatively few IFRIC interpretations compared to, say, the output of the US Emerging Issues Task Force over the same period. IFRIC has also identified that many of the issues referred to it were clear in practice, and they have been able to help the market understand that. One way of doing so is publishing conclusions on why items have not been taken on as interpretation projects. Around 80% of issues raised with IFRIC are rejected because the accounting is reasonably clear; about 20% are rejected because they are considered too difficult to resolve.

Does IFRIC set its own agenda or does it react to requests?

IFRIC does not seek to identify issues for interpretation off its own bat. Instead it reacts to letters and emails sent to the IASB staff asking for an interpretation of additional guidance on particular topics. There were relatively few requests in the early days; this was not surprising, as there were fewer preparers applying IFRS in 2002. More recently we have seen a surge of issues as companies apply the standards in full for the first time. Hopefully, we have passed the peak of receiving three or four new issues a month.

How does IFRIC keep on top of the workload?

This has been a problem. From my perspective IFRIC has always been under-resourced by staff from the IASB, and staff priority was always given to Board projects. This is probably no surprise, as the Board meets monthly for about three days, and the largely full-time Board members are keen to keep their agenda moving forwards rapidly. IFRIC typically meets five times a year, so its much harder to get momentum.

In some ways, we have just reached the peak of a crisis. The number of issues to be discussed at IFRIC reached an all-time high in the latter part of last year. Recent weeks have seen the arrival of a lot of new IASB staff, including some more clearly dedicated to IFRIC support. But it will take a little time for the new staff to get up to speed on IFRIC issues.

Can IFRIC address urgent issues?

IFRIC is not an urgent issues group, and it is impractical for it to do things quickly. But many rightly continue to demand that the IASB and IFRIC have an extensive due process that includes an opportunity for public comment as well as open meetings – it is the most transparent model in the world, but the penalty is timeliness. I would not like us

to back away from significant public dialogue, but if it were possible to streamline it a bit, that would be beneficial. I have suggested that IFRIC should meet more often to shorten the 'internal' cycle, but this has not met with widespread support.

IFRIC exposure drafts are generally open for consultation for 90 days. When you combine that with only five meetings per year, the need for the staff to analyse comments and IFRIC to re-deliberate issues based on those comment letters, you can understand that it can take more than a year for an interpretation to be issued. When you add the fact that interpretations generally apply to accounting periods beginning after the date of issue, you can see that we are talking about two years from issue to implementation.

Does IFRIC get a lot of observers at its open meetings?

It depends. If a topic is relevant to a particular industry or country, we see a significant increase in the number of observers. However, I estimate that the maximum we have had at any one time has been about 30 observers. Topics that have caught the attention of constituents include service concessions and anything that might affect investment banking activities, from

securitisation issues to debt and equity cut-offs.

Is IFRIC as effective as it can be?

There is some way to go. I think an interpretative group needs a balanced representation of users, preparers and auditors, and all or almost all should have current hands-on experience of working with the standards – this is not standard setting (see membership box below).

There is only one preparer of IFRS financial statements currently on IFRIC out of 12 members. I think this needs to be addressed in the short term, as experience of preparing IFRS statements is highly valuable in such a group. In the past, few if any finance directors have put their names forward to make a contribution at IFRIC, so with a number of vacancies in a few weeks time, now is the moment for preparers to get properly engaged.

We also have an absence of users who currently analyse IFRS accounts in order to buy or sell. I know how difficult it is for these individuals to get involved in the interpretative process, but it's a real disadvantage to IFRIC members not to have the active participation of someone who looks at a huge range of financial statements as their day job. So I hope that the trustees will be able to find a user to join IFRIC in the near future.

IFRIC members

Junichi Akiyama
Philip D Ameen

Professor of accounting at Tama University, Tokyo
Vice president and comptroller of General Electric; member of the FASB's task force on business combinations; chairman of the Financial Executives Institute's committee on corporate reporting.

Jeannot Blanchet
Michael E Bradbury

Managing director, global capital markets/fixed income group at Morgan Stanley, Paris.
Professor of accounting in the faculty of business at Unitec, Auckland, New Zealand. Member of the Financial Reporting Standards Board of New Zealand.

Claudio De Conto
Jean-Louis Lebrun

General manager, administration and control, Pirelli, Milan.
Partner and IFRS international technical leader at Mazars; member of EFRAG working party on concessions; member of EFRAG committee that sets accounting; member of IFAC's transnational audit committee.

Domingo Mario Marchese

Partner of Marchese Grandi Meson, Argentina (associated with Deloitte & Touche); professor of financial statements, presentation and analysis; member of CENCYA (Accounting & Auditing Standards Commission).

Mary Tokar
Leo G van der Tas

Partner in KPMG's IAS advisory services group; member of KPMG's global IAS panel.
Partner at Ernst & Young, Rotterdam; chairman of the global Ernst & Young IAS policy committee; part-time professor at Erasmus University, Rotterdam.

Patricia Doran Walters

Senior vice president, professional standards and advocacy, at the CFA Institute; member of the Canadian Accounting Standards Oversight Council.

Ken Wild

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Observers

International Organization of Securities Commissions (IOSCO); European Commission.

IFRIC update

Project	ED published	Comment deadline published/due	Final interpretation
Interpretations recently issued			
D10, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (IFRIC 6)	25 November 2004	11 February 2005	1 September 2005
D5, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (IFRIC 7)	11 March 2004	14 May 2004	24 November 2005
D16, Scope of IFRS 2 (IFRIC 8)	May 2005	18 July 2005	12 January 2006
D15, Reassessment of Embedded Derivatives (IFRIC 9)	1 April 2005	31 May 2005	1 March 2006
Drafts under discussion			
D9, Employee Benefit Plans with Promised Return on Contributions or Promised Contributions	8 July 2004	21 September 2004	Undecided
D11, Changes in Contributions to Employee Share Purchase Plans	16 December 2004	1 March 2005	Closed June 2005. Issues to be covered in IFRS 2 amendment.
D12, Service Concession Arrangements – Determining the Accounting Model	3 March 2005	31 May 2005	Undecided
D13, Service Concession Arrangements – the Financial Asset Model	3 March 2005	31 May 2005	Undecided
D14, Service Concession Arrangements – the Intangible Asset Model	3 March 2005	31 May 2005	Undecided
D17, IFRS 2 – Group and Treasury Share Transactions	May 2005	18 July 2005	Undecided
D18 – Interim Financial Reporting and Impairment	12 January 2006	31 March 2006	Undecided
Note: these dates are provisional only and subject to change			

IFRS diary

Looking forward

1 June 2006 – deadline for comments on **IFRIC 9**, Reassessment of Embedded Derivatives.

19 May 2006 – comment deadline for ED 8, Operating Segments, published on 19 January.

Looking back

14 April 2006 – deadline for users of financial statements to submit comments to IASB and FASB about **information on financial instruments** that is useful to those making investment or credit decisions or advising others on investment or credit decisions.

31 March – Comment deadline expires for **D18**, Interim Financial Reporting and Impairment.

16 March – IASB publishes **exposure draft amending IAS 1**. Comment deadline **17 July**.



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