Events After the Balance Sheet Date

(Revised 1999)

General

The objective of this Standard is to prescribe (a) when an enterprise should adjust its financial statements for events after the balance sheet date and (b) the disclosures that an enterprise should give about the date when the financial statements were authorized for issue and about events after the balance sheet date.

The standard replaces the parts of International Accounting Standards IAS 10, *Contingencies and Events Occurring After the Balance Sheet Date,* that were not already superseded by IAS 37*, Provisions, Contingent Liabilities and Contingent Assets*.

Effective date - For financial statements covering periods beginning on or after 1 January 2000

Specific Provisions

1. “Events after the balance sheet date” are those events, both favorable and unfavorable, that occur between the balance sheet date and the date the financial statements are authorized for issue. Two types of events can be identified:

   (a) those that provide evidence of conditions that existed at the balance sheet date (“adjusting events”); and

   (b) those that are indicative of conditions that arose after the balance sheet (“non-adjusting events”).

2. Amounts recognized in an enterprise’s financial statements should be adjusted to reflect adjusting events after the balance sheet date. (The standard provides several specific examples of adjusting events.)

3. Amounts recognized in an enterprise’s financial statements are not adjusted for non-adjusting events after the balance sheet date. (The standard also provides an example of a non-adjusting event.)

4. If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should *not* recognize those dividends as a liability at the balance sheet date, though IAS 1 does require disclosure of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorized for issue.

5. An enterprise should *not* prepare its financial statements on a going concern basis if management determines after the balance sheet date that it either intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so.

6. The date when the financial statements were authorized for issue and who gave that authorization should be disclosed. If the enterprise’s owners or others have the power to amend the financial statements after issuance, that fact also should be disclosed.

7. If information is received after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relate to those conditions, in light of the new

information.

8. When non-adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should provide disclosure of the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Property, Plant and Equipment

(Issued September 1998)

General

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognized in relation to them.

This Standard replaces IAS 16 Revised 1993. Readers should also consider IAS 36 Impairment of Assets. If an enterprise adopts this Standard early, the enterprise should also adopt IAS 36, IAS 37 and IAS 38 at the same time.

Effective date - 1 July 1999

Specific Provisions

1. This standard should be applied in accounting for property, plant and equipment except when another IAS requires or permits a different accounting treatment.

2. An item of property, plant and equipment should be recognized as an asset when:

   (a) it is probable that future economic benefits associated with the asset will flow to the enterprise; and

   (b) the cost of the asset to the enterprise can be measured reliably.

3. An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.

4. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed Standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Measurement Subsequent to Initial Recognition

Benchmark Treatment

5. Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses, subject to the requirement in paragraph 56 to write an asset down to its recoverable amount.

Allowed Alternative Treatment

6. Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

7. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

8. When an asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation surplus. However, a revaluation increase should be recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense.

9. When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognized as an expense. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

Depreciation

10. The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset.

11. The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

12. The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

Retirements and Disposals

13. An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

14. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the income statement.

Disclosures

15. The financial statements should disclose for each class of property, plant and equipment*:*

    (a) the measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

- additions;
- disposals;
- acquisitions through business combinations;
- increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed directly in equity;
- impairment losses recognized in the income statement during the period;
- impairment losses reversed in the income statement during the period;
- depreciation;
- the net exchange differences arising on the translation of the financial statements of a foreign entity; and
- other movements.

Comparative information is not required for the reconciliation in (e) above.

16. The financial statements should also disclose:

- whether, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values;
- the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- the accounting policy for the estimated costs of restoring the site of restoration costs relating to items of property, plant or and equipment;
- the amount of expenditures on account of property, plant and equipment in the course of construction; and
- the amount of commitments for the acquisition of property, plant and equipment.

17. When items of property, plant and equipment are stated at revalued amounts the following should be disclosed:

- the basis used to revalue the assets;
- the effective date of the revaluation;

- whether an independent valuer was involved;

- the nature of any indices used to determine replacement cost;
- the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment in paragraph 28 at cost less depreciation; and
- the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.

Refer to SIC 14: *Property, Plant and Equipment - Compensation for the Impairment or Loss of Items*. Effective 1 July 1999.

Business Combinations

(Issued September 1998)

General

The objective of this Standard is to prescribe the accounting treatment for business combinations. The Standard covers both an acquisition of one enterprise by another and also the rare situation of a uniting of interests when an acquirer cannot be identified. Accounting for an acquisition involves determination of the cost of the acquisition, allocation of the cost over the identifiable assets and liabilities of the enterprise being acquired and accounting for the resulting goodwill or negative goodwill, both at acquisition and subsequently. Other accounting issues include the determination of the minority interest amount, accounting for acquisitions which occur over a period of time, subsequent changes in the cost of acquisition or in the identification of assets and liabilities, and the disclosures required.

This Standard replaces IAS 22, *Business Combinations*, Revised 1993. If an enterprise adopts this Standard early, the enterprise should also adopt IAS 36, IAS 37, and IAS 38 at the same time.

Effective date - 1 July 1999

Specific Provisions

1. A business combination which is an acquisition should be accounted for by use of the purchase method of accounting.

Acquisitions

2. A business combination that is an acquisition should be accounted for using the purchase method of accounting set out in paragraphs 19-76 of IAS 22 (revised).

3. As from the date of acquisition, an acquirer should:

   (a) incorporate into the income statement the results of operations of the acquiree; and

   (b) recognize in the balance sheet the identifiable assets and liabilities of the acquiree and any goodwill or negative goodwill arising on the acquisition.

4. An acquisition should be accounted for at its cost, being the amount of cash or cash equivalents paid or the fair value, at the date of exchange, of the other purchase consideration given by the acquirer in exchange for control over the net assets of the other enterprise, plus any costs directly attributable to the acquisition.

5. The identifiable assets and liabilities acquired that are recognized should be those of the acquiree that existed at the date of acquisition together with any liabilities. They should be recognized separately as at the date of acquisition if, and only if:

   (a) it is probable that any associated future economic benefits will flow to, or resources embodying economic benefits will flow from, the acquirer; and

(b) a reliable measure is available of their cost or fair value.

6. Subject to paragraph 6 of this synopsis, liabilities should not be recognized at the date of acquisition if they result from the acquirer's intentions or actions. Liabilities should also not be recognized for future losses or other costs expected to be incurred as a result of the acquisition, whether they relate to the acquirer or the acquiree.

7. At the date of acquisition, the acquirer should recognize a provision that was not a liability of the acquiree at that date if, and only if, the acquirer has:

   (a) at, or before, the date of acquisition, developed the main features of a plan that involves terminating or reducing the activities of the acquiree and that relates to:

   - compensating employees of the acquiree for termination of their employment;
   - closing facilities of the acquiree;
   - eliminating product lines of the acquiree; or
   - terminating contracts of the acquiree that have become onerous because the acquirer has communicated to the other party at, or before, the date of acquisition that the contract will be terminated;

   (b) by announcing the main features of the plan at, or before, the date of acquisition, raised a valid expectation in those affected by the plan that it will implement the plan; and

   (c) by the earlier of three months after the date of acquisition and the date when the annual financial statements are approved, developed those main features into a detailed formal plan identifying at least:

   - the business or part of a business concerned;
   - the principal locations affected;
   - the location, function, and approximate number of employees who will be compensated for terminating their services;
   - the expenditures that will be undertaken; and
   - when the plan will be implemented.

   Any provision recognized under this paragraph should cover only the costs of the items listed above.

Allocation of Cost of Acquisition - Benchmark Treatment

8. The identifiable assets and liabilities recognized should be measured at the aggregate of:

   (a) the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction; and

   (b) the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.

   Any goodwill or negative goodwill should be accounted for under in accordance with this Standard.

Allocation of Cost of Acquisition - Allowed Alternative Treatment

9. The identifiable assets and liabilities recognized should be measured at their fair values as at the date of acquisition. Any goodwill or negative goodwill should be accounted for under in accordance with this Standard. Any minority interest should be stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognized.

10. If the fair value of an intangible asset cannot be measured by reference to an active market (as defined in IAS 38, *Intangible Assets*), the amount recognized for that intangible asset at the date of the acquisition should be limited to an amount that does not create or increase negative goodwill that arises on the acquisition.

Goodwill

11. Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognized as an asset.

12. Goodwill should be carried at cost less any accumulated amortization and any accumulated impairment losses.

13. Goodwill should be amortized on a systematic basis over its useful life. The amortization period should reflect the best estimate of the period during which future economic benefits are expected to flow to the enterprise. There is a rebuttable presumption that the useful life of goodwill will not exceed twenty years from initial recognition.

14. The amortization method used should reflect the pattern in which the future economic benefits arising from goodwill are expected to be consumed. The straight-line method should be adopted unless there is persuasive evidence that another method is more appropriate in the circumstances.

15. The amortization for each period should recognized as an expense

16. The amortization period and the amortization method should be reviewed at least at each financial year end. If the expected useful life of goodwill is significantly different from previous estimates, the amortization period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from goodwill, the method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates under IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, by adjusting the amortization charge for the current and future periods.

17. In addition to following the requirements included in IAS 36, *Impairment of Assets*, an enterprise should, at least at each financial year end, estimate in accordance with IAS 36 the recoverable amount of goodwill that is amortized over a period exceeding twenty years from initial recognition, even if there is no indication that it is impaired.

18. Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, should be recognized as negative goodwill.

19. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill should be recognized as income in the income statement when the future losses and expenses are recognized. (If these identifiable future losses and expenses are not recognized in the expected period, negative goodwill should be treated as in paragraph 19 below).

20. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill should be recognized as income in the income statement as follows:

    (a) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets should be recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets; and

    (b) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets should be recognized as income immediately.

21. Negative goodwill should be presented as a deduction from the assets of the reporting enterprise, in the same balance sheet classification as goodwill.

22. When the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment should be included in the cost of the acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reliably.

32. The cost of the acquisition should be adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, so that payment of the amount is probable and a reliable estimate of the amount can be made.

24. Identifiable assets and liabilities, which are acquired but which do not satisfy the criteria in paragraph 4 of this synopsis for separate recognition when the acquisition is initially accounted for, should be recognized subsequently as and when they satisfy the criteria. The carrying amounts of identifiable assets and liabilities acquired should be adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those identifiable assets and liabilities when the acquisition was initially accounted for. The amount assigned to goodwill or negative goodwill should also be adjusted, when necessary, to the extent that:

    (a) the adjustment does not increase the carrying amount of goodwill above its recoverable amount, as defined in IAS 36; and

    (b) such adjustment is made by the end of the first annual accounting period commencing after acquisition (except for the recognition of an identifiable liability, for which the time-frame in paragraph 6 (c) applies);

    Otherwise the adjustments to the identifiable assets and liabilities should be recognized as income or expense.

25. If provisions for terminating or reducing activities of the acquiree were recognized under paragraph 6, these provisions should be reversed if, and only if:

    (a) the outflow of economic benefits is no longer probable; or

    (b) the detailed formal plan is not implemented:

        (i) in the manner set out in the detailed formal plan; or
        (ii) within the time established in the detailed formal plan.

    Such a reversal should be reflected as an adjustment to goodwill or negative goodwill (and minority interests, if appropriate), so that no income or expense is recognized in respect of it. The adjusted amount of goodwill should be amortized prospectively over its remaining useful life. The adjusted amount of negative goodwill should be dealt with under paragraph 19 (a) and (b).

Uniting of interests

26. A uniting of interests should be accounted for by use of the pooling of interests method.

27. In applying the pooling of interests method, the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented. The financial statements of an enterprise should not incorporate a uniting of interests to which the enterprise is a party if the date of the uniting of interests is after the date of the most recent balance sheet included in the financial statements.

28. Any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired should be adjusted against equity.

29. Expenditures incurred in relation to a uniting of interests should be recognized as expenses in the period in which they are incurred.

Disclosures

30. For all business combinations, the following disclosures should be made in the financial statements for the period during which the combination has taken place:

- the names and descriptions of the combining enterprises;
- the method of accounting for the combination;
- the effective date of the combination for accounting purposes; and
- any operations resulting from the business combination which the enterprise has decided to dispose of.

31. For a business combination which is an acquisition, the following additional disclosures should be made in the financial statements for the period during which the acquisition has taken place:

- the percentage of voting shares acquired; and
- the cost of acquisition and a description of the purchase consideration paid or contingently payable.

32. For goodwill, the financial statements should disclose:

- the amortization period(s) adopted;
- if goodwill is amortized over more than twenty years, the reasons why the presumption that the useful life of goodwill will not exceed twenty years from initial recognition is rebutted. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the goodwill;
- if goodwill is not amortized on the straight-line basis, the basis used and reason why that basis is more appropriate than the straight-line basis;
- the line item(s) of the income statement in which the amortization of goodwill is included; and

- a reconciliation, of the carrying amount of both goodwill and negative goodwill, at the beginning and end of the period showing:

  - the gross amount and the accumulated amortization (aggregated with accumulated impairment losses), at the beginning of the period;
  - any additional goodwill recognized during the period;
  - adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;
  - any goodwill derecognized on the disposal of all or part of the business to which it relates during the period;
  - amortization recognized during the period;
  - impairment losses recognized during the period under IAS 36 (if any);
  - impairment losses reversed during the period under IAS 36 (if any);
  - other changes in the carrying amount during the period (if any); and
  - the gross amount and the accumulated amortization (aggregated with accumulated impairment losses), at the end of the period.

33. For negative goodwill, the financial statements should disclose:

- to the extent that negative goodwill is treated as a deduction from the assets of the reporting entity, a description, the amount and the timing of the expected future losses and expenses;

- the period(s) over which negative goodwill is recognized as income;

- the line item(s) of the income statement in which negative goodwill is recognized as income; and

- a reconciliation of the carrying amount of negative goodwill at the beginning and end of the period showing:

  - the gross amount of negative goodwill and the accumulated amount of negative goodwill already recognized as income, at the beginning of the period;
  - any additional negative goodwill recognized during the period;
  - any adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;
  - any negative goodwill derecognized on the disposal of all or part of the business to which it relates during the period;
  - negative goodwill recognized as income during the period, showing separately the portion of negative goodwill recognized as income under paragraph 61 (if any);
  - other changes in the carrying amount during the period (if any); and
  - the gross amount of negative goodwill and the accumulated amount of negative goodwill already recognized as income, at the end of the period.

34. The disclosure requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, apply to provisions recognized under paragraph 31 for terminating or reducing the activities of an acquiree. These provisions should be treated as a separate class of provisions for the purpose of disclosure under IAS 37. In addition, the aggregate carrying amount of these provisions should be disclosed for each individual business combination.

35. In an acquisition, if the fair values of the identifiable assets and liabilities or the purchase consideration can only be determined on a provisional basis at the end of the period in which the acquisition took place, this should be stated and reasons given. When there are subsequent adjustments to such provisional fair

values, those adjustments should be disclosed and explained in the financial statements of the period concerned.

36. For a business combination which is a uniting of interests, the following additional disclosures should be made in the financial statements for the period during which the uniting of interests has taken place:

- description and number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the uniting of interests;

- amounts of assets and liabilities contributed by each enterprise; and

- sales revenue, other operating revenues, extraordinary items and the net profit or loss of each enterprise prior to the date of the combination that are included in the net profit or loss shown by the combined enterprise's financial statements.

37. For business combinations effected after the balance sheet date, the information required as mentioned above should be disclosed. If it is impracticable to disclose any of this information, this fact should be disclosed.

Transitional Provisions (The Standard sets out detailed provisions for initial adoption of this revised Standard).

Refer to SIC 9: *Business Combinations - Classification either as Acquisitions or Unitings of Interests*. Effective 1 August 1998.

Accounting for Investments in Associates

(Revised September 1998)

General

IAS 28 (Reformatted 1994) has been revised to include consequential changes related to IAS 36, *Impairment of Assets*. The effective date of the revised Standard is thus linked to the effective date of IAS 36 as outlined below.

Except for paragraphs 23 and 24, this International Accounting Standard is effective for financial statements covering periods beginning on or after 1 January 1990.

Paragraphs 23 and 24 become effective when IAS 36 becomes operative - i.e., for annual financial statements covering periods beginning on or after 1 July 1999, unless IAS 36 is adopted for earlier periods.

Specific Provisions (limited to the consequential changes)

1. Paragraphs 23 & 24, as referred to above, require an enterprise to apply IAS 36 when there is an indication that an investment in an associate may be impaired. Refer to the Synopsis of IAS 36 for further guidance.

2. The recoverable amount of an investment in an associate is assessed for each individual associate unless an individual associate does not generate cash flows from continuing use that are largely independent of those from other assets of the reporting enterprise.

Refer to SIC 3: *Elimination of Unrealised Profits and Losses on Transactions with Associates*. Effective 1 January 1998.

Financial Reporting of Interests in Joint Ventures

(Revised in September 1998)

General

IAS 31 (Reformatted 1994) has been revised to include consequential changes related to IAS 36, *Impairment of Assets*. The effective date of the Revised Standard is thus linked to the effective date of IAS 36 as outlined below.

Except for paragraphs 39, 40 and 41, IAS 31 (Revised 1998) is effective for financial statements covering periods beginning on or after 1 January 1992.

Paragraphs 39, 40 and 41 become effective when IAS 36 becomes operative – i.e. for annual financial statements covering periods beginning on or after 1 July 1999, unless IAS 36 is adopted for earlier periods.

Specific Provisions (limited to the consequential changes)

1. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction should reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer should recognize only that portion of the gain or loss which is attributable to the interests of the other venturers. The venturer should recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

2. When a venturer purchases assets from a joint venture, the venturer should not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer should recognize its share of the losses resulting from these transactions in the same way as profits except that losses should be recognized immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.

3. To assess whether a transaction between a venturer and a joint venturer provides evidence of impairment of an asset, the venturer determines the recoverable amount of the asset under IAS 36. In determining value in use, future cash flows from the asset are estimated based on continuing use of the asset and its ultimate disposal by the joint venture.

Refer to SIC 13: *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. Effective 1 January 1999.

Impairment of Assets

(Issued June 1998)

General

This Standard prescribes the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if this exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the enterprise to recognize an impairment loss. The Standard also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

This Standard does not cover the impairment of:

(a) inventories (see IAS 2)

(b) assets arising from construction contracts (see IAS 11)

(c) deferred tax assets (see IAS 12)

(d) assets arising from employee benefits (see IAS 19); and

(e) financial assets (see IAS 32).

Effective date - For financial statements covering periods beginning on or after 1 July 1999.

Specific Provisions

Identifying an asset that may be impaired

1. An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. If any such indication exists, the enterprise should estimate the recoverable amount of the asset.

2. In assessing whether there is any indication that an asset may be impaired, an enterprise should consider both external and internal sources of information as indicators of a possible impairment of an asset. (The Standard provides detailed guidance in respect of the external and internal sources of information to be considered).

3. *Measurement of recoverable amount*

   (a) Recoverable amount is the higher of an asset's net selling price and it's value in use.

   (b) Net selling price is a price in a binding sale agreement in an arm's length transaction or market price, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

(c) Estimating the value in use of an asset involves the following steps:

(i) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal. (The Standard provides detailed guidance in respect of estimating future cashflows); and

(ii) applying the appropriate discount rate to these future cash flows.

(d) If, and only if, the recoverable amount of an asset is less than its carrying amount, should the amount be reduced to its recoverable amount. That reduction is an impairment loss.

Recognition and measurement of an impairment loss

4. An impairment loss should be recognized as an expense in the income statement immediately, unless the asset is carried at a revalued amount under another International Accounting Standard. Any impairment loss relating to a revalued asset should be treated as a revaluation decrease.

5. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognize a liability if, and only if, that is required by another International Accounting Standard.

6. After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating Units

7. *Identification of the cash-generating unit to which an asset belongs:*

(a) If there is any indication that an asset may be impaired, recoverable amount should be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an enterprise should determine the recoverable amount of the cash-generating unit to which the asset belongs.

(b) If an active market exists for the output produced by an asset or a group of assets, this asset or group of assets should be identified as a cash-generating unit, even if some or all of the output is used internally.

(c) Cash-generating units should be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

8. *Recoverable amount and carrying amount of a cash-generating unit*

(a) The carrying amount of a cash-generating unit should be determined consistently with the way the recoverable amount of the cash generating asset is determined.

(b) In testing a cash-generating unit for impairment, an enterprise should identify whether goodwill that relates to this cash-generating unit is recognized in the financial statements. If this is the case, an enterprise should:

- Perform a 'bottom-up' test to allocate the carrying amount of goodwill on a reasonable and consistent basis to the cash-generating unit under review; and

- If, in performing the 'bottom-up' test, the enterprise could not allocate the carrying amount of goodwill on a reasonable and consistent basis to the cash-generating unit under review, the enterprise should also perform a 'top-down' test whereby the carrying amount of goodwill can be allocated to the smallest cash- generating unit that includes the cash-generating unit under review.

The recoverable amount of the cash-generating unit is compared to its carrying amount (including the carrying amount of allocated goodwill) and any impairment loss is recognized.

9. In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that relate to the cash-generating unit under review. For each identified corporate asset, an enterprise should:

    (a) If the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply the 'bottom-up' test only; and

    (b) If the carrying amount of the corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply both the 'bottom-up' and 'top-down' tests.

Impairment loss for a cash-generating unit

10. An impairment loss should be recognized for a cash-generating unit if, and only if, its recoverable amount is less than its carrying amount. The impairment loss should be allocated to reduce the carrying amount of the asset of the unit in the following order:

    (a) Goodwill allocated to the cash-generating unit (if any); and

    (b) Other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

    These reductions in carrying amounts should be treated as impairment losses on individual assets.

11. In allocating an impairment loss, the carrying amount of an asset should not be reduced below the highest of:

    (a) Its net selling price (if determinable);

    (b) Its value in use (if determinable); and

    (c) Zero.

    The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro rata basis.

Reversal of an impairment loss

12. An enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset.

13. An impairment loss recognized for an asset in prior years should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. However, the carrying amount should not be increased above the lower of (i) its recoverable amount (if determinable); and (ii) the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

The increase is a reversal of an impairment loss and should be recognized as income immediately in the income statement. Any reversal of an impairment on a revalued asset should be treated as a revaluation increase.

14. An impairment loss recognized for goodwill should not be reversed in a subsequent period unless:

(a) The impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and

(b) Subsequent external events have occurred that reverse the effect of that event.

Disclosures

15. For each class of assets, the financial statements should disclose:

- the amount of impairment losses recognized in the income statement during the period and the line item(s) of the income statement in which those impairment losses are included;
- the amount of reversals of impairment losses recognized in the income statement during the period and the line item(s) of the income statement in which those impairment losses are reversed;
- the amount of impairment losses recognized directly in equity during the period; and
- the amount of reversals of impairment losses recognized directly in equity during the period.

16. An enterprise that applies IAS 14, *Segment Reporting*, should disclose the following for each reportable segment based on an enterprise's primary format:

- the amount of impairment losses recognized in the income statement and directly in equity during the period; and
- the amount of reversals of impairment losses recognized in the income statement and directly in equity during the period.

17. If an impairment loss for an individual asset or a cash-generating unit is recognized or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:

- the events and circumstances that led to the recognition or reversal of the impairment loss;
- the amount of the impairment loss recognized or reversed;
- for an individual asset:

  the nature of the asset; and
  the reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in IAS 14, if the enterprise applies IAS 14);

- for a cash-generating unit:

  (i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in IAS 14 or other);

(ii) the amount of the impairment loss recognized or reversed by class of assets and by reportable segment based on the enterprise's primary format; and

(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;

- whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;

- if recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and

- if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

18. If impairment losses recognized (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:

- the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed;

- the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed.

19. An enterprise is encouraged to disclose key assumptions used to determine the recoverable amount of assets (cash-generating units) during the period.

Provisions, Contingent Liabilities and Contingent Assets

(Issued September 1998)

General

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Effective date 1 July 1999.

This Standard should be applied by all enterprises in accounting for provisions, contingent liabilities and contingent assets, except:

(a) those resulting from financial instruments that are carried at fair value;

(b) those resulting from executory contracts, except where the contract is onerous;

(c) those arising in insurance enterprises from contracts with policyholders; and

(d) those covered by another International Accounting Standard.

Specific Provisions

1. A provision should be recognized when:

    (a) an enterprise has a present obligation (legal or constructive) as a result of a past event;

    (b) it is probable that an outflow of resources will be required to settle the obligation; and

    (c) a reliable estimate can be made of the amount of the obligation.

    If these conditions are not met, no provision should be recognized.

2. In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

3. An enterprise should not recognize a contingent liability.

4. An enterprise should not recognize a contingent asset.

5. The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

6. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

7. When the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

8. The discount rate should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which future cash flow estimates have been adjusted.

9. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

10. Gains from the expected disposal of assets should not be taken into account in measuring a provision.

11. When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

12. In the income statement, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.

13. Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

14. A provision should be used only for expenditures for which the provision was originally recognized.

15. Provisions should not be recognized for future operating losses.

16. If an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision.

17. A constructive obligation to restructure arises only when an enterprise:

- has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

18. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e. there is a binding sale agreement.

19. A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and

- not associated with the ongoing activities of the enterprise.

Disclosures

20. For each class of provision, an enterprise should disclose:

    - the carrying amount at the beginning and end of the period;
    - additional provisions made in the period, including increases to existing provisions;
    - amounts used (i.e. incurred and charged against the provision) during the period;
    - unused amounts reversed during the period; and
    - the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

    Comparative information is not required.

21. An enterprise should disclose the following for each class of provision:

    - a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
    - an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events; and
    - the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

22. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

    - an estimate of its financial effect;
    - an indication of the uncertainties relating to the amount or timing of any outflow; and
    - the possibility of any reimbursement.

23. Where an inflow of economic benefits is probable, an enterprise should disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect.

24. Where any of the information required by paragraphs 15(c) and (d) of this Synopsis is not disclosed because it is not practicable to do so, that fact should be stated.

25. In extremely rare cases, disclosure of some or all of the information required by the Standard and summarised above can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an enterprise need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Intangible Assets

(Issued September 1998)

General

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another International Accounting Standard. This Standard requires an enterprise to recognize an intangible asset, and only if, certain criteria are met. This Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

This standard replaces IAS 4.

Effective date 1 July 1999.

This Standard should be applied by all enterprises in accounting for intangible assets, except:

(a) intangible assets that are covered by another International Accounting Standard;

(b) financial assets, as defined in IAS 32, *Financial Instruments: Disclosure and Presentation*;

(c) mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources; and

(d) intangible assets arising in insurance enterprises from contracts with policyholders.

Specific Provisions

1. An intangible asset should be recognized if, and only if:

    (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

    (b) the cost of the asset can be measured reliably.

2. An enterprise should assess the probability of future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

3. An intangible asset should be measured initially at cost.

4. Internally generated goodwill should not be recognized as an asset.

5. No intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.

6. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the following:

   (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

   (b) its intention to complete the intangible asset and use or sell it;

   (c) its ability to use or sell the intangible asset;

   (d) how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

   (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

   (f) its ability to measure the expenditure attributable to the intangible asset during its development reliably.

7. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.

8. Expenditure on an intangible item should be recognized as an expense when it is incurred unless:

   (a) it forms part of the cost of an intangible asset that meets the recognition criteria; or

   (b) the item is acquired in a business combination that is an acquisition and cannot be recognized as an intangible asset. If this is the case, this expenditure (included in the cost of acquisition) should form part of the amount attributed to goodwill (negative goodwill) at the date of acquisition (see IAS 22 (revised 1998), *Business Combinations*).

9. Expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognized as part of the cost of an intangible asset at a later date.

10. Subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless:

    (a) it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed Standard of performance; and

    (b) this expenditure can be measured and attributed to the asset reliably.

    If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

Measurement Subsequent to Initial Recognition - Benchmark treatment

11. After initial recognition, an intangible asset should be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Measurement Subsequent to Initial Recognition - Allowed alternative treatment

12. After initial recognition, an intangible asset should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value should be determined by reference to an active market. Revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

13. If an intangible asset is revalued, all the other assets in its class should also be revalued, unless there is no active market for those assets.

14. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset should be carried at its cost less any accumulated amortization and impairment losses.

15. If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset should be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

16. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation surplus. However, a revaluation increase should be recognized as income to the extent that it reverses a revaluation decrease of the same asset and that revaluation decrease was previously recognized as an expense.

17. If an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognized as an expense. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

Amortization

18. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. Amortization should commence when the asset is available for use.

19. If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless:

    (a) the legal rights are renewable; and

    (b) renewal is virtually certain.

20. The amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be used. The amortization charge for each period should be recognized as an expense unless another International Accounting Standard permits or requires it to be included in the carrying amount of another asset.

21. The residual value of an intangible asset should be assumed to be zero unless:

    (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market for the asset and:

- residual value can be determined by reference to that market; and
- it is probable that such a market will exist at the end of the asset's useful life.

22. The amortization period and the amortization method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortization period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortization method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates under IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, by adjusting the amortization charge for the current and future periods.

23. In addition to the following requirements included in IAS 36, *Impairment of Assets*, an enterprise should estimate the recoverable amount of the following intangible assets at least at each financial year end, even if there is no indication that the asset is impaired:

    (a) an intangible asset that is not yet available for use; and

    (b) an intangible asset that is amortized over a period exceeding twenty years from the date when the asset is available for use.

    The recoverable amount should be determined under IAS 36 and impairment losses recognized accordingly.

24. An intangible asset should be derecognized (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal.

25. Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the income statement.

Disclosures

26. The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- the useful lives or the amortization rates used;
- the amortization methods used;
- the gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- the line item(s) of the income statement in which the amortization of intangible assets is included;
- a reconciliation of the carrying amount at the beginning and end of the period showing:
    - additions, indicating separately those from internal development and through business combinations;
    - retirements and disposals;
    - increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed directly in equity;

- impairment losses recognized in the income statement during the period;
- impairment losses reversed in the income statement during the period;
- amortization recognized during the period;
- net exchange differences arising on the translation of the financial statements of a foreign entity; and
- other changes in the carrying amount during the period.

Comparative information is not required.

27. The financial statements should also disclose:

- if an intangible asset is amortized over more than twenty years, the reasons why the presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use is rebutted. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset;

- a description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the financial statements of the enterprise as a whole;

- for intangible assets acquired by way of a government grant and initially recognized at fair value:

  - the fair value initially recognized for these assets;
  - their carrying amount; and
  - whether they are carried under the benchmark or the allowed alternative treatment for subsequent measurement;

- the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and

- the amount of commitments for the acquisition of intangible assets.

28. If intangible assets are carried at revalued amounts, the following should be disclosed:

- by class of intangible assets:

  - the effective date of the revaluation;
  - the carrying amount of revalued intangible assets; and
  - the carrying amount that would have been included in the financial statements had the revalued intangible assets been carried under the benchmark treatment in paragraph 63; and

- the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.

29. The financial statements should disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

Transition Provisions

30. At the date when this Standard becomes effective (or at the date of adoption, if earlier), it should be applied as set out in the following tables. In all cases other than those detailed in these tables, this Standard should be applied retrospectively, unless it is impracticable to do so.

31. The effect of adopting this Standard on its effective date (or earlier) should be recognized under IAS 8 that is, as an adjustment either to the opening balance of retained earnings of the earliest period presented (IAS 8 benchmark treatment) or to the net profit or loss for the current period (IAS 8 allowed alternative treatment).

32. In the first annual financial statements issued under this Standard, an enterprise should disclose the transitional provisions adopted where transitional provisions under this Standard permit a choice.

Financial Instruments: Recognition and Measurement

(Issued 1999)

General

This standard establishes provisions for recognizing, measuring, and disclosing information about an enterprise's financial assets and financial liabilities, including accounting for hedging transactions. IAS 39, together with IAS 32, which deals with presentation and disclosure of financial instruments, are the IASC's two main pronouncements on the subject, though several other existing Standards also address matters relating to financial instruments.

The standard replaces the parts of International Accounting Standards IAS 25, *Accounting for Investments* that address accounting for investments in debt and equity securities and other financial instruments.

Effective date - For financial statements covering periods beginning on or after 1 January 2001.

Specific Provisions

1. Under IAS 39, all financial assets and financial liabilities are recognized on the balance sheet, including all derivatives. They are initially measured at cost, which is the fair value of whatever was paid or received to acquire the financial asset or liability.

2. An enterprise should recognize normal purchases of securities in the market place either at trade date or settlement date, with recognition of certain value changes between trade and settlement dates if settlement date accounting is used.

3. Transaction costs should be included in the initial measurement of all financial instruments.

4. Subsequent to initial recognition, all financial assets are remeasured to fair value, except for the following, which should be carried at amortized cost subject to a test for impairment:

   (a) loans and receivables originated by the enterprise and not held for trading;

   (b) other fixed maturity investments, such as debt securities and mandatorily redeemable preferred shares, that the enterprise intends and is able to hold to maturity; and

   (c) financial assets whose fair value cannot be reliably measured (generally limited to some equity securities with no quoted market price and some derivatives that are linked to and must be settled by delivery of such unquoted equity securities).

5. An enterprise should measure loans and receivables that it has originated and that are not held for trading at amortized cost, less reductions for impairment or uncollectibility. The enterprise need not demonstrate an intent to hold originated loans and receivables to maturity.

6. An enterprise does not have the positive intent to hold to maturity an investment in a fixed maturity financial asset if any one of the following conditions is met:

(a) the enterprise has the intent to hold the financial asset for only an undefined period;

(b) the enterprise stands ready to sell the financial asset (other than if a situation arises that is non-recurring and could not have been reasonably anticipated by the enterprise) in response to changes in market interest rates or risks, liquidity needs, changes in the availability of and the yield on alternative investments, changes in financing sources and terms, or changes in foreign currency risk; or

(c) the issuer has a right to settle the financial asset at an amount significantly below its amortized cost.

7. If an enterprise is prohibited from classifying financial assets as held-to-maturity because it has sold more than an insignificant amount of assets that it had previously said it intended to hold to maturity, that prohibition should expire at the end of the second financial year following the premature sales.

8. After acquisition most financial liabilities are remeasured at original recorded amount less principal repayments and amortization. Only derivatives and liabilities held for trading (such as securities borrowed by a short seller) are remeasured to fair value.

9. For those financial assets and liabilities that are remeasured to fair value, an enterprise will have a single, enterprise-wide option to either:

(a) recognize the entire adjustment in net profit or loss for the period; or

(b) recognize in net profit or loss for the period only those changes in fair value relating to financial assets and liabilities held for trading, with the non-trading value changes reported in equity until the financial asset is sold, at which time the realized gain or loss is reported in net profit or loss. For this purpose, derivatives are always deemed held for trading unless they are part of a hedging relationship that qualifies for hedge accounting.

10. IAS 39 requires that an impairment loss be recognized for a financial asset whose recoverable amount is less than carrying amount. Guidance is provided for calculating impairment.

11. IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party. For financial assets, a transfer normally would be recognized if (a) the transferee has the right to sell or pledge the asset and (b) the transferor does not have the right to reacquire the transferred assets unless either the asset is readily obtainable in the market or the reacquisition price is fair value at the time of reacquisition. With respect to derecognition of liabilities, the debtor must be legally released from primary responsibility for the liability (or part thereof) either judicially or by the creditor. If part of a financial asset or liability is sold or extinguished, the carrying amount is split based on relative fair values. If fair values are not determinable, a cost recovery approach to profit recognition is taken.

12. If a debtor delivers collateral to the creditor and the creditor is permitted to sell or repledge the collateral without constraints, then the debtor recognizes the collateral given as a receivable and the creditor recognizes the collateral received as an asset and the obligation to repay the collateral as a liability.

13. Hedging, for accounting purposes, means designating a derivative or (only for hedges of foreign currency risks) a non-derivative financial instruments as an offset, in whole or in part, to the change in fair value or cash flows of a hedged item. A hedged item can be an asset, liability, firm commitment or forecasted future transaction that is exposed to risk of change in value or other changes in future cash flows.

14. Hedge accounting is permitted only if an enterprise designates a specific hedging instrument as a hedge of a change in value or cash flow of a specific hedged item, rather than as a hedge of an overall net balance sheet position. However, the approximate income statement effect of hedge accounting for an overall net

position can be achieved, in some cases, by designating part of one of the underlying items as the hedged position.

15. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the basis (carrying amount) of the acquired asset or liability.

16. IAS 39 supplements the disclosure requirements of IAS 32 for financial instruments.

17. IAS 39 is effective for annual accounting periods beginning on or after 1 January 2001. Earlier application is permitted as of the beginning of a financial year that ends after 15 March 1999 (the issuance date of IAS 39).

18. On initial adoption of IAS 39, adjustments to bring derivatives and other financial assets and liabilities onto the balance sheet and adjustments to remeasure certain financial assets and liabilities from cost to fair value will be made by adjusting retained earnings directly.