



International Financial Reporting Bulletin

17 January 2006

Status: Final

Effective date: Immediate

Accounting impact:

Impacts those companies adopting EU endorsed IFRSs

Status of EU endorsed IFRSs:

- Which IFRSs have, and have not, been endorsed?; and
- Does endorsement have to have happened by the year-end or by the date on which the accounts are approved?

Background

31 December 2005 is an important date for many EU listed groups within the scope of the EU regulation requiring the preparation of their consolidated accounts in accordance with EU endorsed IFRS. A key consideration for such companies is that the EU endorsement process may take a further six to nine months from the date on which a new or amended accounting standard has been issued by the IASB.

This IFRB looks at which IFRSs have, and have not, been endorsed and two recent pronouncements from the Commission which have been issued in response to the following questions:

- If a company reporting in accordance with EU-adopted IFRSs (a European IFRS company) wishes to adopt a new or amended accounting standard that has been issued by the IASB, does endorsement have to have happened by the company's financial year-end or by the date on which the accounts are approved?
- How should endorsed IFRSs be referred to?

The position in respect of the endorsement of IFRIC Interpretations is not addressed in this IFRB. The timing of endorsement of an IFRIC Interpretation is not relevant, as this clarifies existing guidance rather than introducing new requirements.

Requirements

Timing of endorsement

The European Commission (EC) has informed Member States that Regulations endorsing IFRSs published in the Official Journal after a European IFRS company's year-end but before the company signs its financial statements can be used in those financial statements. However, there is no obligation to do so. The ability to use those IFRSs applies where early application is permitted in the Regulation and the related IFRSs. As a consequence those standards and amendments awaiting endorsement at 31 December 2005 could still be used by European IFRS companies if the EC complete the process sufficiently early in the New Year (ie before the respective European IFRS Company's date of approval of its financial statements).

Further guidance is given on the EC website http://europa.eu.int/comm/internal_market/accounting/committees_en.htm#company and on the EFRAG website <http://www.efrag.org/page.html?pid=1&item=326>

Referring to endorsed IFRSs

At the same meeting the EC and ARC approved a standard wording for use in notes to the accounts and in the audit report of EU companies subject to the Regulation as follows: “*in accordance with International Financial Reporting Standards as adopted by the EU*” or as an abbreviated variant “*in accordance with IFRSs as adopted by the EU*”. In arriving at this wording they noted that:

- The explicit plural “IFRSs” underscores that IFRSs are endorsed one-by-one rather than as a package and
- The term “as” is significant: it makes it absolutely clear that the statement should be read as “in the manner in which IFRSs have been adopted in the EU following the endorsement procedure” and not simply as “IFRSs that have been adopted”.

IFRS yet to be endorsed

Turning to the question of which IFRSs have, and have not, been endorsed, although the IASB issued their “stable platform” for 2005 year ends in 2004 there have been various amendments, new standards and IFRICs since that date. All of these are required to be endorsed before they became part of the EU adopted IFRSs.

The standards and interpretations that have not yet been formally endorsed by the EU are:

- IFRS 7 *Financial Instruments: Disclosure*;
- IFRIC 6 *Waste Electrical and Electronic Equipment*;
- IFRIC 7 *Applying the restatement Approach under IAS 29*;
- IFRIC 8 *Scope of IFRS 2*;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 6 *Exploration for and Evaluation of Mineral Resources: Application of IFRS 6 to comparatives*;
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts: Financial Guarantee Contracts*;
- Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures*
- Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The European Financial Reporting Advisory Group (EFRAG) periodically publish the current position of the EU endorsement process noting which IFRSs have, and have not, been endorsed at:

<http://www.efrag.org/page.html?pid=1&item=331>.

A more detailed analysis including links to the relevant EC Regulations are given at: **http://europa.eu.int/comm/internal_market/accounting/ias_en.htm#status-adoption**

It should be remembered that in November 2004 the EC endorsed IAS 39 with a carve out of certain provisions relating to the full Fair Value Option and Hedge Accounting. The EC considered this exclusion as exceptional and of a temporary nature pending resolution of the outstanding issues by further consultation and discussion. The EC subsequently endorsed the revised Fair Value Option in November 2005. At that point Internal Market and Services Commissioner Charlie McCreevy said: *"I am very pleased that the Commission has been able to eliminate the 'Fair Value carve-out' to IAS 39. The two IAS 39 carve-outs were always intended to be exceptional and temporary. We therefore need to press on with the technical work to find a solution on the second carve out."*

Action required

European IFRS companies should consider whether IFRSs endorsed after their year-end but before approval of their accounts would impact on those financial statements and, if so, whether these IFRSs should be adopted in their financial statements for that year end..

If these IFRSs are not adopted, it should be noted that IAS 8 paragraph 30 will require disclosure of the fact the IFRSs are not adopted and the possible impact on the financial statements.