IFRS 1

FIRST TIME ADOPTION OF IFRS

IFRS 1-FIRST TIME ADOPTION OF IFRS

- IFRS issued by IASB issued in the year 2008
- Sets out requirement on preparation and presentation of FS and interim financial statement
- Scope is to ensure that they contain high quality information to the stakeholders
- FS should be transparent for users and comparable overall the time presented
- Provides a suitable starting point for accounting in accordance with IFRS

IFRS 2 SHARED BASED PAYMENTS

- Issued in feb 2004 by IASB
- A share-based payment is the transaction in which the entity receives goods and services either as consideration for its equity , cash, equity or cash
- Objectives of IFRS 2 is to specify financial reporting by an entity when it undertakes share based payment transactions
- IFRS 2 requires an entity to reflect in its P/L and financial position the effect of share based payments transactions including expenses associated with transaction in which share options are granted to employees

IFRS 3 *Business Combinations*

- IFRS 3 outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger).
- A revised version of IFRS 3 was issued in January 2008
- Scope of IFRS 3 is to improve the relevance, reliability and comparability of the information that entity provides in FS about a business combination and its effects

business combination

- A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in [IFRS 3]

Method of accounting for business combinations

- **Acquisition method**
- The acquisition method (called the 'purchase method' in the 2004 version of IFRS 3) is used for all business combinations. [IFRS 3.4]
- Steps in applying the acquisition method are: [IFRS 3.5]
- Identification of the 'acquirer'
- Determination of the 'acquisition date'
- Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI, formerly called minority interest) in the acquiree
- Recognition and measurement of goodwill or a gain from a bargain purchase

IFRS -4 INSURANCE CONTRACTS

The implementation of the IFRS accounting standards for insurers is planned in 2 phases:

- **Phase I**, in force since 2005, is documented in **IFRS 4**; it is only an **interim solution with focus on disclosure**
- In **phase II**, the **planned final version of IFRS for insurers with focus on valuation**, the **"Fair Value Concept"** should be introduced for all relevant Balance Sheet items
- The **Fair Value Concept** implies the **valuation of all assets and liabilities** of the Balance Sheet with **market values**, if existing, or with "market-near" values

- According to IFRS 4, three different classes of contracts are distinguished:
  - **insurance contracts**
  - **investment contracts with Discretionary Participation Feature (with DPF)**
  - **investment contracts without DPF**
- In **insurance contracts** there is **significant insurance risk**
- In **investment contracts** there is **significant financial risk, but no or not material insurance risk**

Contract Classification

Definition of an **insurance contract** is as follows:

- An **insurance contract** is "a contract under which one party (the **insurer**) accepts **significant insurance risk** from another party (the **policyholder**) by agreeing to compensate the policyholder if a specified uncertain future event (the **insured event**) adversely affects the policyholder"
- **Insurance risk** is defined as a "risk, other than **financial risk,** transferred from the holder of a contract to the issuer"

- **Financial risk** is defined as "the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract."

Contract Classification

- **Investment contracts** are contracts which **bear significant financial risk, but have no significant insurance risk.** Those contracts can be either
  - **investment contracts with DPF** Discretionary Participation Feature

  or
  - **investment contracts without DPF;** these contracts are sometimes also called **pure investment contracts**

- **Examples for investment contracts with DPF:**
  - "Freizügigkeitspolicen" with usual bonus, but with no significant insurance risk
  - Financial products with technical interest rates and annually determined participation, but with no significant insurance risk (e.g. financial products in Belgium, Pension Funds in Czech)

- **Examples for investment contracts without DPF:**
  - Unit-linked contracts with no significant insurance risk
  - Financial contracts with technical interest rates linked to interest rates of matching zero bonds without participation and without significant insurance risk (e.g. Pension Funds in Hungary, financial products in Luxembourg)
  - Because of tax reasons, there are **no relevant life products in Switzerland** which are classified as **investment contracts without DPF**

IFRS -5 NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

- It was issued on 2004
- If non current asset is held for sale the economic benefit of that asset is obtained through asset sale rather than through its continues use of that asset in the business
- Non current asset held for sale should be presented separately on the face of B/S as