

IFRS News

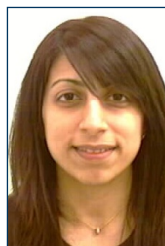
Emerging issues and practical guidance*

Issue 65 – July/August 2008

New IFRIC guidance on real estate sales

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IFRIC 15, 'Agreements for the Construction of Real Estate', issued in July, addresses diversity in accounting for real estate sales. Avni Mashru of PwC's Accounting Consulting Services in the US explains the implications.

The diversity in accounting for real estate sales arises because some entities recognise revenue when real estate is transferred to the customer (in accordance with IAS 18, Revenue); others recognise revenue over the period of construction (in accordance with IAS 11, Construction Contracts). IFRIC 15 clarifies how to determine whether an agreement is within the scope of IAS 11 or IAS 18. It also replaces example 9 in the appendix to IAS 18.

What are the key impacts?

Entities that have previously recognised revenue from real estate sales under IAS 11 will be most significantly affected if their arrangements do not meet the definition of a construction contract. This might apply, for example, to entities that build residential houses or apartments for sale to individuals and might result in revenue being recognised later than under the existing accounting model.

Entities that have previously recognised revenue from real estate sales under IAS 11 will be most significantly affected if their arrangements do not meet the definition of a construction contract or the criteria in IFRIC 15 for using the percentage of completion method.

The interpretation provides further guidance on the separation of a contract into its components (for example, the delivery of services, such as property maintenance, and the sale of goods, such as an apartment) to determine the basis for revenue recognition. IAS 18 might be applied to one component of a contract and IAS 11 to another.

IFRIC 15 might also result in revenue being delayed to the extent that one component is delivered later than the others regardless of the accounting model. For example, an obligation to deliver significant communal facilities to the residents of an apartment block after all of the residential units have been delivered might mean that some revenue is deferred until the communal facilities are complete.

How does an entity determine whether IAS 11 or IAS 18 applies?

An entity should first consider whether a construction agreement contains more than one component. For example, a single real estate construction agreement may cover the delivery of additional goods or services such as the sale of land or provision of property management services. An entity may need to split such an agreement into its separately identifiable components and consider each component separately to determine the appropriate guidance and the basis for revenue recognition.

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For example, a builder agrees to sell standard apartment and provide maintenance services to the buyer for five years. There are two components to which IAS 18 should be applied. IAS 18.14 for the sale of goods is applied to the apartment and IAS 18.20 for the sale of services to the maintenance. The same builder agrees to sell a piece of land to a manufacturer and build a specialised factory on the land to a design prepared by the buyer. The sale of land is irrevocable and does not depend on the completion of construction. There are two components: IAS 18 would be applied to the sale of the land and IAS 11 to construction of the factory.

Determining whether an agreement is within the scope of IAS 11 or IAS 18 requires management to use its judgement. IFRIC 15 interprets the guidance in IAS 11 and IAS 18 as follows:

- IAS 11: an agreement is a construction contract when the buyer is able to specify the major structural elements of the design either before or during construction. For example, an oil company that requires a new refinery might specify its exact requirements to the builder and monitor and change those requirements throughout construction. This illustrates the buyer specifying the major elements of design; IAS 11 would be applied to the construction of the refinery. The substance of an agreement to manufacture a large volume of similar assets to a buyer's specification should be considered to determine whether it is for the sale of goods and within the scope of IAS 18. For example, a vehicle manufacturer that receives an order for 100 buses of a standard design but painted in the operator's livery would apply IAS 18 to the delivery of each bus.
- IAS 18: an agreement is for the sale of goods when construction takes place independently of the agreement and the buyer has only limited ability to influence the design. For example, a house builder has five different models of home in one development. The buyer specifies the model and chooses from a range of elements of interior decor. This demonstrates a limited ability to influence the design, and IAS 18 would be applied to the sale of the house.

The substance of an agreement to manufacture a large volume of similar assets to a buyer's specification should be considered to determine whether the agreement is in fact for the sale of goods.

How to account for revenue from the construction of real estate? The substance of the agreement will determine whether IAS 18 or IAS 11 applies. There are two ways in which the criteria in IAS 18 might be applied to the sale of goods: (a) continually, and (b) at a single point of time:

- (a) An entity may continually transfer control and the significant risks and rewards of ownership as construction progresses. The revenue recognition criteria may be met and revenue recognised continuously by reference to the stage of completion using the percentage of completion

method. For example, a builder agrees to build a house to its standard design. The rights of ownership transfer to the buyer as construction occurs in accordance with local law. The buyer has control and the significant risks and rewards of ownership of the real estate constructed to date throughout construction, and retains that control and the significant risks and rewards of ownership of the work in process if construction is halted at any time. The criteria in IAS 18.14 are met continuously, and revenue is recognised during construction.

- (b) An entity may transfer control and the significant risks and rewards of ownership of the real estate only at a single point in time; the revenue is recognised at that point.

In some circumstances, the IAS 18 revenue recognition criteria may be met and revenue recognised continuously throughout the construction period by reference to the stage of completion.

Management should use its judgement. The examples in the interpretation show how the terms of the agreement, the facts and circumstances, and the local legal requirements should be considered.

Are there any changes to disclosure requirements?

Additional disclosures are required where the 'continuous transfer' method applies. These disclosures include the basis for determining which agreements meet all the revenue recognition criteria for the sale of goods continuously as construction progresses; the amount of revenue arising; and the method used to determine the stage of completion. In all other circumstances, as well as for the continuous transfer method, entities provide the disclosure requirements of the applicable standard – either IAS 11 or IAS 18.

Is the interpretation broader than just real estate?

The impact of the interpretation might be broader than just real estate. The basis for conclusions states that, although the scope of the guidance is restricted to sales of real estate, it may be applied by analogy in other situations. Entities in other industries that apply the construction contract model in IAS 11 should consider whether their accounting is affected by IFRIC 15. Entities that deliver multiple units to a customer's specifications should also think about IFRIC 15 because the basis for conclusions states that these arrangements will often lead to revenue being recognised as each unit is delivered.

The impact may be broader than just real estate. Entities in other industries that apply the construction contract model in IAS 11 should consider whether their accounting is affected by IFRIC 15.

The interpretation is effective for periods beginning on or after 1 January 2009. Earlier application of the interpretation is permitted, although reporters in the EU will have to wait until the interpretation has been endorsed.

Hedge accounting – practical implications of recent changes



The IASB and the IFRIC have both changed provisions relating to hedge accounting this year. Parts of this guidance clarify flexibilities in applying hedging strategies; other parts make hedge accounting more challenging. Scott Bandura of PwC's Global Accounting Consulting Services central team explains the practical implications of changes to net investment hedging and to risks eligible for hedge accounting.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation

The IFRIC was asked to clarify what is and is not permitted with respect to hedging net investments in foreign operations. The interpretation clarifies that a hedging instrument may be held anywhere within a group. For example, it is now clear that it is possible for a parent company with a euro functional currency to hedge the euro/USD risk associated with a USD subsidiary even where there is a GBP entity between the parent and USD subsidiary. There may be more flexibility in a large multinational group structure to match the foreign currency exposure on debt with exposures on net investments.

The interpretation has also clarified the effect of the two permitted methods of performing consolidations. These methods are known as the direct method and the step-by-step method:

- **Direct method:** all entities within the group are consolidated directly into the parent company.
- **Step-by-step method:** management prepares sub-consolidations for each entity within the group. The group accounts of the reporting entity's direct subsidiaries are consolidated by the reporting entity.

The same net investment hedging strategies can be used under either consolidation policy, but recycling of foreign currency reserves can differ depending on which method is used. The interpretation clarifies how to recycle net investment hedging reserves under either method of consolidation.

Entities may only hedge foreign exchange risks in relation to functional currency and not presentation currency. There are no restrictions on what presentation currency an entity can select; therefore, presentation currency risk was not viewed as a true economic exposure. This change is likely to have limited impact in practice, as most entities only hedged functional currency risk.

IFRIC 16 is effective for annual periods beginning on or after 1 October 2008.

Eligible hedged items (amendment to IAS 39)

The IASB chose to scale down its project to define which risk portions of financial instruments are eligible for hedge accounting. Instead of giving broad guidance applicable to all risks and portions, it has issued an amendment to IAS 39, Financial Instruments: Recognition and Measurement, which deals with two narrower issues related to eligible risks within a hedged item.

Hedging one-sided risk with options

Hedging one-sided risks is a common strategy for both financial

and non-financial items. For example, an entity with forecasted foreign currency sale might use purchased foreign currency options to hedge risk of decreases in the relative value of the entity's functional currency.

The Board felt that time value of an option was not a component of a hedged item that affects income. Revisions to IAS 39 effectively prohibit including changes in the time value of an option within a hedging relationship.

Entities can continue to use option-hedging strategies but will need to designate only the intrinsic value of the option within the relationship. Significant additional volatility is possible, as the changes in the time value of the option would be recorded directly in income.

The new requirements are effective for periods beginning on or after 1 July 2009 and will be applied retrospectively. Calendar-year companies should therefore adopt in 2010 but restate comparatives for 2009 if option hedging strategies including time value were used during that period. In order to avoid loss of hedge accounting and restating comparative figures, calendar-year companies will need to alter their strategies prior to 1 January 2009. Companies with year ends between July and December need to act even sooner.

Inflation hedging

The amendment clarifies that it is not possible to designate the inflation component of a fixed-rate instrument as a hedged portion because inflation is not a separately identifiable component of such an instrument. Also, changes in inflation do not have a reliably measurable effect on the cash flows or fair value of the entire financial instrument. However, it is often possible to designate variation in cash flows due to inflation as a hedged portion of a typical inflation-linked bond (where the inflation component has not been separated as an embedded derivative).

Looking ahead

The discussion paper 'Reducing Complexity in Reporting Financial Instruments' gives the Board's views on possible changes to hedge accounting. The Board is looking to simplify accounting for financial instruments by 2011; hedge accounting is one of the areas of focus. It is still uncertain what changes will arise from the project. For further details on the content of the discussion paper, see 'Reducing Complexity in Reporting Financial Instruments' in the April 2008 edition of *IFRS News*. Comments on the IASB discussion paper are due 19 September.

Q&A guidance on IAS 23



IAS 23 Revised was issued in March last year. It is effective for annual periods beginning on or after 1 January 2009 (in the case of EU entities, it is subject to endorsement). Global ACS partner Olivier Scherer looks at the benefits of the revised standard and some of the complexities surrounding its implementation.

Companies construct or acquire different types of assets as part of their normal activities. The construction process can be lengthy, and companies take out loans and incur borrowing costs to finance the completion of the asset.

Under the previous version of IAS 23, IFRS preparers elected either to capitalise such borrowing costs or to expense them. The IASB has removed this option as part of its convergence project; it will now require capitalisation of borrowing costs.

The accounting treatment under IAS 23R is perceived by the majority of European companies surveyed by the European Commission and EFRAG as being preferable, even though they are currently applying the expensing method. The main benefit of the revision is the elimination of one of the current options. This will increase comparability between financial statements.

However, implementation of IAS 23R will result in some initial implementation costs and add some complexity, as the

expensing method is simpler to apply than the capitalisation method. Capitalisation of borrowing costs is a simple concept, but questions arise when it comes to implementation. PwC will publish a practical guide of questions and answers later this year, addressing some of the common implementation issues that arise frequently in practice.

It will include guidance on:

- scope (for example, can borrowing costs on inventories or intangible assets be capitalised and in which circumstances?);
- measurement of borrowing costs (for example, how to take into account the impact of foreign exchange differences);
- the interaction of IAS 23R with IAS 11; and
- transition issues.

A sample of the questions and answers is included in this month's supplement to *IFRS News*.

Beginners' guide – a new series



Dear Readers,

This month we launch a new series in IFRS News, titled 'The Beginners' Guide'. You may ask why a 'Beginners' Guide', as IFRS News is primarily read by highly skilled professionals. But the accounting standards continue to grow in complexity and you, the readers, asked us to go 'back to basics'

and explain the fundamentals of some of the more complex accounting issues.

We considered a number of titles for this series, and 'The Bluffer's Guide to Complex Accounting Issues' was our first choice but was vetoed on risk management concerns. This series will attempt to explain, in clear language, topics that are

often reserved to specialists. Application of the accounting standards today does require the input of specialists, and this series won't help you become an expert in any topic; but we hope that it will provide all the non-specialists with a better understanding of the specific issue and the implications for business.

The series kicks off with an explanation of collateralised debt obligations and their role in the credit crunch. We are planning articles on share-based payments, pensions, deferred tax, fair value and financial instruments. Let us know if there are other gaps that we should try and fill.

Mary Dolson
Global ACS business combinations topic team leader
and publisher of *IFRS News*

Beginners' guide: collateralised debt obligations

Newspapers have been full of horror stories in recent months about the 'credit crunch'. Collateralised debt obligations (CDOs) in particular have been blamed for causing the financial woes. Jyoti Ghosh in UK ACS tells you all you need to know about the role of CDOs and the credit crunch.

What are CDOs?

CDOs are special purpose vehicles (SPVs) constructed by financial institutions and fund managers to hold loans and other debts (assets) as collateral and sell packages of cash flows from these assets to investors. So the roots of this product are in securitisation, which is an arrangement to borrow money against cash expected to be received in the future.

The cash comes from a pool of interest-bearing assets, such as residential and commercial mortgages, commercial real estate debt and high-yield corporate bonds. These cash flows are then repackaged into different classes of securities and sold to investors. Payments to investors are therefore linked to the performance of the securitised pool of assets that serve as collateral for the CDO liabilities. The investments are managed by an experienced investment manager.

Why are CDOs created?

There are two principal motivations for creating CDOs.

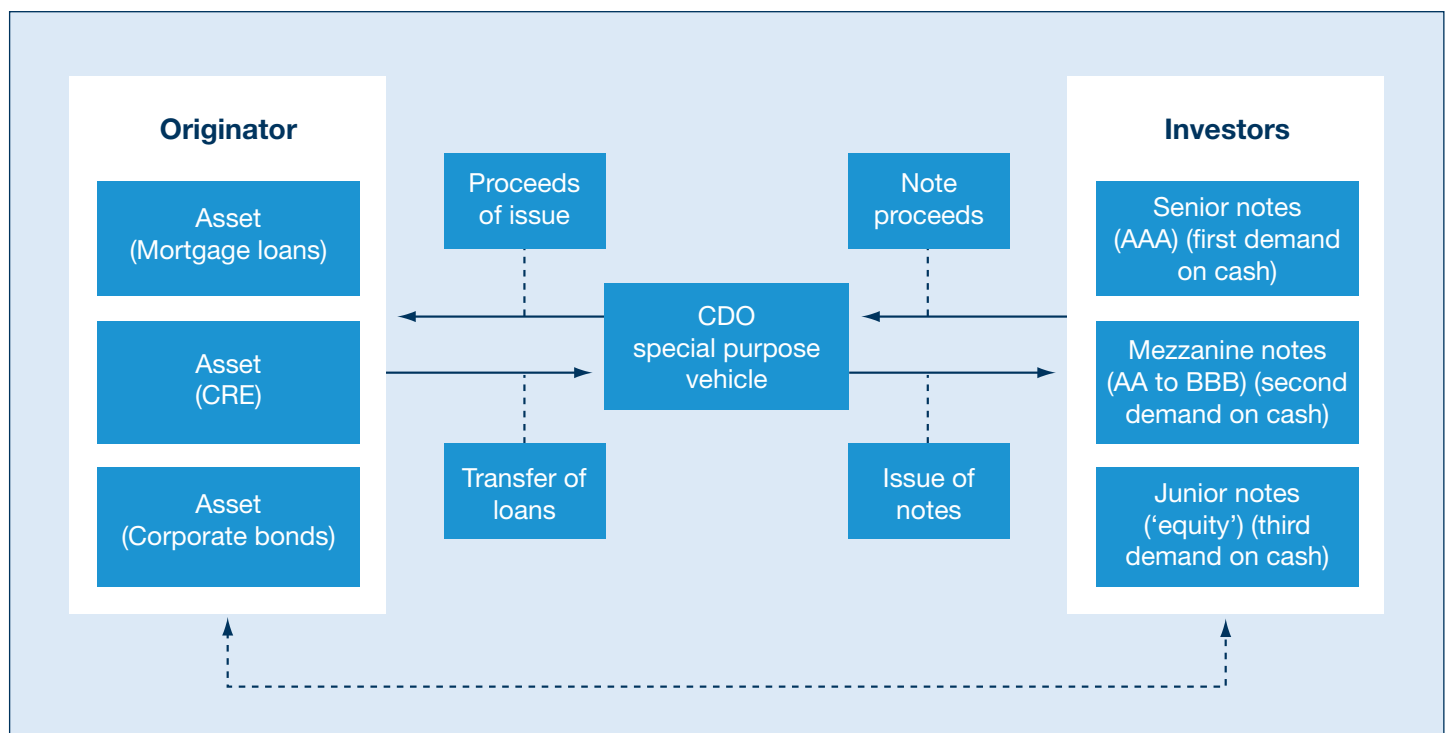
- To remove loan assets from the balance sheet and generate cash. By transferring these assets (some risky) to the capital markets, banks not only raise funds through their sale (monetisation); they are also able to manage their credit exposure and/or improve financial ratios. These structures are referred to as balance sheet CDOs.

- To realise a profit through arbitrage. The profit arises on the excess spread between the weighted average yield that the CDO earns on its pool of assets and the yield that it must pay out on its own debt obligations. The profits usually go to the holders of the 'equity' (the most junior tranche of debt issued by the SPV); a portion also goes to the managers as a performance-based fee.

How are CDOs constructed?

A generic CDO structure is shown in the diagram below.

- An SPV raises cash by issuing notes to investors and then acquires a portfolio of fixed-income loans. In a balance sheet CDO, all the assets might be acquired from one originator. In an arbitrage CDO, the assets might be acquired from a number of different originators. And in a CDO of asset-backed securities, the SPE acquires securities issued by a variety of securitisation vehicles.
- The liabilities are sliced up into different tranches of notes of varying seniority. The cash flows from the portfolio of assets are used to pay the SPV's interest and principal obligations in relation to each tranche of notes in turn. The cash flows from the pool of assets first go to the senior note holders. They then trickle down to mezzanine note holders and finally to the subordinated/equity holders, just like a waterfall. So if there are not enough cash flows left, the subordinated/



equity holders may suffer a loss. Looked at another way, the losses are applied in reverse order of seniority: losses are first borne by the subordinated/equity holders and the junior note holders, then by the mezzanine note holders and finally by the senior note holders.

- The credit-rating agencies assign a rating to each tranche based on its perceived risk of loss, so generally the senior tranche of a CDO will receive the highest (AAA), with each tranche below it receiving successively lower ratings. The most junior tranche is sometimes unrated. It receives the highest return but bears the highest risk of suffering losses. This 'equity' tranche (often now described as 'toxic waste') is the most vulnerable to losses from bad debts but offers the best percentage coupons to compensate for the higher risk.
- The ratings of tranches, in the past, included certain assumptions about the diversification of risk across the pool of borrowers. The assumption was that enough borrowers would be able to pay to allow the senior noteholders, at least, to be paid. This assumption of diverse risk proved to be incorrect in many cases. In practice, the assets of many CDOs seemed to go bad at the same time, particularly in CDOs where the underlying assets were all residential mortgage related and no one got paid.

The value of an investment in a CDO is, therefore, more complex than the quality of the underlying assets. The value is also driven by how good the investment manager is at assessing the likelihood of default across the assets in the CDO and therefore the probable cash available for each tranche of noteholders.

Are there different types of CDO?

There are various types of CDO that are based on the underlying asset. For example:

- collateralised loan obligations, backed primarily by bank loans;
- collateralised bond obligations, backed primarily by corporate bonds;
- synthetic CDOs, backed primarily by credit derivatives, such as credit default swaps on a diversified pool of reference assets; and
- CDO-squared' and 'CDO-cubed', backed primarily by tranches issued by other CDOs (complex due to the possible repetition of exposures in the underlying CDO, but they work in a similar manner to the generic CDO described above).

Who are the investors?

CDOs are investor focused. Their popularity stems from the wide range of securities they offer. Investors are able to choose a tranche that suits their appetite for risk, yield and term. Many kinds of investor, from commercial and investment banks, unit and investment trusts, to pension funds and life insurers, are attracted by the AAA and AA notes, especially when they pay a higher interest coupon than other kinds of debt with a similar rating. Hedge funds in particular were large investors in CDOs, as they used leverage to profit from the excess spread offered by the senior tranche and their cost of borrowing. Other investors, such as private equity funds, were attracted by the mezzanine, junior and equity notes, which offer yields that were not available in most fixed-income securities.

What caused the 'CDO bubble' to burst?

CDOs were first created in 1988. They have been the fastest growing sector of the asset-backed securities market. From less than \$3 billion in 1995, the global CDO market saw spectacular growth during the credit boom years between 2001 (\$101 billion) and the first half of 2007 (nearly \$2 trillion). However, the credit bubble burst last summer, and the CDO market contracted significantly.

The reasons for the collapse are varied and complex, but the current crisis was kicked off by the sub-prime lending crisis in the US. Cheap loans and long-term rising housing prices led to relaxed underwriting standards. This encouraged mortgage brokers operating on a commission basis to 'sell' mortgages to home buyers with patchy credit records and unproved incomes, or to those wanting to borrow many times their incomes.

Then US house prices started to drop and refinancing became more difficult. During 2007, the number of houses subject to foreclosure was up 79% on the previous year. Many mortgage lenders had passed the rights to the mortgage payments and related credit/default risk to third-party investors via mortgage-backed securities and CDOs. A significant proportion of residential MBS taken out in recent years were repackaged into CDOs.

As default rates on underlying sub-prime mortgages rose and the value of underlying mortgage assets in the pool declined, AAA and super-senior tranches of CDOs began to experience significant declines in value. Money-market funds and a number of structured investment vehicles that used asset-backed securities and CDOs as collateral to raise short-term commercial paper also found in late 2007 that they could not roll over their commercial paper.

As many CDO products are held on a mark-to-market basis, the paralysis in the credit markets and the collapse of liquidity in these products led to substantial write-downs in 2007. Many blame the complexity of the CDO products, and the failure of risk and recovery models used by credit rating agencies – which gave high ratings to sub-prime CDOs – for precipitating the credit crunch.

However, others argue that investors were also at fault. They made purchasing decisions on the strength of a credit rating without a full investigation of the underlying risks and potential volatility, and did not monitor credit performance and/or estimate expected cash flows. Certainly CDOs with assets from a wide variety of originators and complex waterfall provisions and default triggers were more difficult for an investor to analyse and value than more traditional investments.

Latest predictions are that global volumes for CDOs will continue to collapse this year as the effects of the credit crunch continue to impact the securitisation industry. Will the market for CDOs ever recover? Probably, but one thing is clear: CDOs will never again be used by so many for so many different purposes.

Latest IFRS developments for pharma and life sciences companies



It has been four years since PwC published its first set of solutions for the industry. These addressed issues including capitalisation of development expenditure and how to account for pre-launch inventory. What has changed since then and what is important now? Director in PwC's UK Accounting Consulting Services Michael Gaull takes a look.

Accounting challenges in the pharma and life sciences arena arise not only from new accounting standards but also from changes in the industry's business model.

The pharmaceuticals world is changing. The global market for medicines is growing, but the successful development of new drugs by large pharma companies is declining. This is partly because consumers, and regulators, have changed their expectations, demanding increased efficacy and reduced risk. The market dynamics, though, remain strong as the global population continues to grow and we are living longer. As developing countries' GDP rises, the diseases that their populations suffer from are changing.

These developments pose significant challenges for the industry: is it adapting fast enough to cope with and capitalise on these changes?

Industry developments

Risk-sharing collaborations

The political and legal framework deters the industry from taking risks: there is no guarantee that a new medicine will be eligible for reimbursement, and patent lives can be the same for new products as for line extensions. Pharma and life science companies have sought to speed up the development process and reduce their risk by undertaking partnerships with biotech companies.

These collaborations pose several accounting issues for pharma and life science companies.

Example

Pharma Inc and Biotech SA collaborate on the development of a particular compound. Pharma Inc provides funding for development work from phase III through to FDA approval. Biotech SA performs the clinical trials and applies for FDA approval. Biotech SA grants Pharma Inc a licence to make, sell and market the product.

Pharma Inc makes an upfront payment of C10m. It will pay a further C20m if phase III trials are completed successfully; C10m if FDA approval is received; and a 25% royalty on sales. Pharma Inc will not fund any development directly and will not fund overruns of Biotech SA's development budget.

Accounting questions arising from such collaborations are:

- Is Biotech SA selling an asset, providing a service or both?
- Is Pharma Inc buying an asset, funding internal development costs or both?

- How should management treat upfront payments when these payments do not represent payments for the provision of a service?
- When should each party recognise milestone payments?
- When should each party recognise royalties?

These issues are explored in Volume III of PwC's 'Issues and solutions for the Pharmaceuticals and Life Sciences Industries', available on pwc.com.

There are several other issues around this area that the industry group is thinking about, some in the light of recent IFRIC discussions on trail commissions, such as:

- When should the milestone payments be accounted for by Pharma Inc?
- When should the royalty payments be accounted for by Pharma Inc?

Pay for performance

New types of agreement are being signed between pharma and life science companies and those paying for healthcare. These may significantly move the risks and rewards transferred between the two. For example, in September 2006, a large pharma company struck an agreement that the prices of two new medicines will be increased or reduced once sufficient data is available to judge their efficacy and cost-effectiveness. The period over which such efficacy may be judged could be a long one – it could be that a pharma entity will receive the full price of a cancer drug only if, for example, patients remain in remission for five years after the drug is first administered. It is reasonably clear that pharma entities continue to sell drugs (goods) under such arrangements and are not providing an ongoing health service.

This area is at an early stage and, depending on how agreements are structured and the comparability between the prescribed patient group and the clinical trial population, it is possible that it will not affect the revenue recognition practices of pharma and life science companies. However, the industry will need to carefully consider one key revenue recognition criteria from IAS 18: 'the amount of revenue can be measured reliably'.

Issues to consider are:

- What are the assessment criteria? Do they use similar data and similar patient groups to those tested in clinical trials? In other words, does the pharma company have enough reliable evidence of how efficacy will be assessed when it

first sells the drug, or does it need to wait until the payer's results are received?

- How controllable is the outcome? Is the drug administered by a doctor in one or a few doses, or is the drug self-administered by the patient over a lengthy period?
- How might the drug react with other medication taken by the patient, and how is this factored into any price adjustment?
- Is there a 'floor' price at which some revenue may be recognised? What is the value at risk?

Example

Pharma Inc buys Biotech SA, a business that is developing three compounds, and agrees to pay the following:

- C100m in cash;
- C50m additional cash if one of the compounds gets FDA approval within five years; and
- 2m shares to the two owners of Biotech SA, who are also its chief scientists. The shares will be given to the scientists only if they remain employed by Biotech SA three years after the acquisition.

Receipt of the shares is entirely dependent on employment. It is likely that the value of the grant made to the scientists should be charged to post-acquisition income. It is not included in goodwill.

The C50m payable on FDA approval should be fair valued at the acquisition date. This will be a complex exercise, taking account of the probabilities of different outcomes for the three compounds.

Any changes to the fair value of this liability after the acquisition date is recorded in Pharma Inc's income statement. If the amount is paid out exceeds the value of the liability, an expense will result. It is likely that this expense will precede the benefits that will be received from the drug that gets FDA approval. This puts the expense in the income statement well before any potential benefits. And 'bad news' will result in reducing or derecognising the liability, creating income.

Accounting developments

Business combinations

Accounting for business combinations will change radically from 2009, when IFRS 3 (Revised), Business Combinations, becomes effective. Of particular interest to the pharma industry are provisions on earn-outs and share-based payments.

- New rules provide that all earn-outs are measured at fair value at the acquisition date. Where those earn-outs are debt (rather than equity), they are re-measured to fair value through the income statement.
- Clarifying guidance says that shares and options given to selling employees are analysed between payments that are for the business being purchased and those for post-acquisition services. The latter are expensed in the income statement of the acquirer.

Pharma and biotech companies should start thinking about the structure and implications of potential business combinations now: their financial statements might look quite different under IFRS 3 (Revised).

Other issues on the horizon

Some other issues that are likely to affect accounting in the industry and that PwC is monitoring are:

- Accounting for donated products and agreements to make donations; and
- IASB discussions on liabilities and how they affect warranty provisions.

Accounting and business developments mean that pharmaceuticals and life sciences is an industry where accounting issues will continue to arise and where we will continue to develop useful and robust guidance.

For further help on IFRS technical issues contact:

Business Combinations and Adoption of IFRS

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