

2006

International Financial Reporting Standards (IFRSs®)

including International Accounting Standards (IASs™)
and Interpretations as at 1 January 2006



IFRS



International
Accounting Standards
Board®

International Financial Reporting Standards (IFRSs[®]) 2006

including International Accounting Standards (IASs[™])
and Interpretations as at 1 January 2006

*The full text of all International Financial Reporting Standards extant at
1 January 2006*

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Changes in this edition

This section is a brief guide to the changes since the 2005 edition that are incorporated in this edition of the Bound Volume of International Financial Reporting Standards.

Introduction

The main changes in this edition of the Bound Volume are the inclusion of:

- a new Standard—IFRS 7
- three new Interpretations—IFRICs 6–8
- amendments to IFRSs 1, 4 and 6 and IASs 1, 21 and 39
- amendments to other IFRSs resulting from these pronouncements

and the omission of:

- IAS 30, which is being superseded by IFRS 7
- IFRIC 3, which was withdrawn in June 2005 with immediate effect.

New Standards

Details of the new Standards and Interpretations included in this edition are as follows.

IFRS 7

IFRS 7 *Financial Instruments: Disclosures* supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements of IAS 32 *Financial Instruments: Disclosure and Presentation* (whose title is shortened as a consequence). The IFRS is required to be applied from 1 January 2007, but earlier application is encouraged.

Other Standards

The Board issued amendments to six Standards—IFRSs 1, 4 and 6 and IASs 1, 21 and 39. Those amendments have been incorporated into the text of those Standards in this edition of the Bound Volume.

The amendments to IAS 1 *Presentation of Financial Statements*, issued as *Capital Disclosures* in August 2005, are required to be applied from 1 January 2007, but earlier application is encouraged.

The amendments to IAS 39 *Financial Instruments: Recognition and Measurement* were issued as follows:

- *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, issued in April 2005, is required to be applied from 1 January 2006.
- *The Fair Value Option*, issued in June 2005, is also required to be applied from 1 January 2006.
- *Financial Guarantee Contracts*, which also included amendments to IFRS 4 *Insurance Contracts* and was issued in August 2005, is to be applied from 1 January 2006, but earlier application is encouraged.

An amendment to paragraph 36B of IFRS 1 *First-time Adoption of International Financial Reporting Standards* was issued in June 2005 and was accompanied by amendments to paragraphs BC65A and BC66 of the Basis for Conclusions on IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

In December 2005 the Board issued an amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates* (published as *Net Investment in a Foreign Operation*). The amendment is to be applied from 1 January 2006 but earlier application is encouraged.

Also in December 2005 the Board published revised Implementation Guidance for IFRS 4, for application when an entity adopts IFRS 7.

IFRIC 6–IFRIC 8

The three new Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and included in this edition of the Bound Volume are:

- IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment*
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*.

IFRIC 6 is required to be applied from 1 December 2005, IFRIC 7 from 1 March 2006 and IFRIC 8 from 1 May 2006.

Earlier application of IFRICs 6–8 is encouraged.

Several of the documents mentioned above included amendments to other pronouncements; those amendments have been incorporated into the text of the pronouncements affected.

Other material that has changed

The Glossary of Terms and the Index have been revised.

Up-to-date text of documents

The text of this edition of the Bound Volume includes the latest versions of all IFRSs (including IASs and Interpretations) approved up to 31 December 2005 and required to be applied on 1 January 2006 or from a future date.

Introduction

The International Accounting Standards Board (IASB), based in London, began operations in 2001. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world. The 14 IASB members (12 of whom are full-time) have a broad range of professional backgrounds and have liaison responsibilities throughout the world. The IASB is selected, overseen and funded by the International Accounting Standards Committee (IASC) Foundation. Financial support is received from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations.

Trustees

Twenty-two Trustees provide oversight of the operations of the IASC Foundation and the IASB. The responsibilities of the Trustees include the appointment of members of the IASB, the Standards Advisory Council and the International Financial Reporting Interpretations Committee; monitoring the IASB's effectiveness and adherence to its due process and consultation procedures; establishing and maintaining appropriate financing arrangements; approval of the budget for the IASC Foundation; and responsibility for constitutional changes.

The Trustees comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Under the Constitution of the IASC Foundation as revised in 2005 (see below), the 22 Trustees are appointed so that there are six from the Asia/Oceania region, six from Europe, six from North America, and four others from any area, as long as geographical balance is maintained.

IASC Foundation Constitution Review

The Trustees completed a review and revision of the IASC Foundation's Constitution in June 2005. The Trustees' report *Changes in the IASCF Constitution*, which discusses the results of the review, was published in July 2005 and may be viewed on the Website www.iascfoundation.org. The revised Constitution came into effect on 1 July 2005.

The IASB

The IASB consists of fourteen individuals (twelve full-time members and two part-time members) and has full discretion in developing and pursuing the technical agenda for setting accounting standards. The main qualifications for membership of the IASB are professional competence and practical experience. The Trustees are required to select members so that the IASB, as a group, will comprise the best available combination of technical expertise and international business and market experience, and to ensure that the IASB is not dominated by any particular constituency or geographical interest. The IASB is also expected to provide an appropriate mix of recent practical experience among auditors, preparers, users and academics. The IASB, in consultation with the Trustees, is expected to establish and maintain liaison with national standard-setters and other official bodies concerned with standard-setting in order to promote the convergence

of national standards and the IASB's International Financial Reporting Standards (IFRSs). The publication of a Standard, exposure draft, or final IFRIC Interpretation requires approval by nine of the IASB's fourteen members. At 1 January 2006 the IASB members were:

Sir David Tweedie, *Chairman*

Thomas E Jones, *Vice-Chairman*

Professor Mary Barth (*part-time*)

Hans-Georg Bruns

Anthony T Cope

Jan Engström

Robert P Garnett

Gilbert Gélard

James J Leisenring

Warren J McGregor

Patricia L O'Malley

John T Smith (*part-time*)

Geoffrey Whittington

Tatsumi Yamada

The IASB issues a summary of Board decisions promptly after each IASB meeting. This *IASB Update* is published in electronic format on the IASB's Website www.iasb.org.

Standards Advisory Council

The Standards Advisory Council (SAC) provides a forum for participation by organisations and individuals, with an interest in international financial reporting, and diverse geographical and functional backgrounds. The objective of the SAC is to give the IASB advice on agenda decisions and priorities in its work, inform the IASB of the views of SAC members on major standard-setting projects, and give other advice to the IASB or the Trustees.

The SAC comprises about forty members. The SAC normally meets at least three times a year. Its meetings are open to the public. The chairman of the SAC is appointed by the Trustees, and cannot be a member of the IASB or its staff. The chairman of the SAC is invited to attend and participate in the Trustees' meetings.

Details of the members of the SAC are available on the Website www.iasb.org.

International Financial Reporting Interpretations Committee

The International Financial Reporting Interpretations Committee (IFRIC) is appointed by the Trustees to assist the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements. The Trustees established the IFRIC in March 2002, when it replaced the previous interpretations committee, the Standing Interpretations Committee (SIC). The role of the IFRIC is to provide timely guidance on newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop. It thus promotes the rigorous and uniform application of IFRSs.

The IFRIC assists the IASB in achieving international convergence of accounting standards by working with similar groups sponsored by national standard-setters to reach similar conclusions on issues where underlying standards are substantially similar.

The IFRIC has twelve voting members in addition to a non-voting Chair, currently IASB member Robert Garnett. The Chair has the right to speak to the technical issues being considered but not to vote. The Trustees, as they deem necessary, may appoint as non-voting observers regulatory organisations, whose representatives have the right to

attend and speak at meetings. Currently, the International Organization of Securities Commissions (IOSCO) and the European Commission are non-voting observers.

The IFRIC publishes a summary of its decisions promptly after each meeting. This *IFRIC Update* is published in electronic format on the IASB Website.

Details of the members of the IFRIC are available on the Website www.iasb.org.

IASB staff

A staff based in London, headed by the Chairman of the IASB, supports the IASB. At 1 January 2006 the technical staff included people from Australia, China, Germany, Hong Kong, Ireland, Korea, Malaysia, New Zealand, Nicaragua, South Africa, Spain, the United Kingdom and the United States.

Due process

IASB due process

IFRSs are developed through a formal system of due process and broad international consultation.

The IASB has complete responsibility for all IASB technical matters including the preparation and issuing of IFRSs and Exposure Drafts, and final approval of Interpretations developed by the IFRIC. The IASB has full discretion in developing and pursuing its technical agenda. Formal due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IASC Foundation Constitution are indicated by an asterisk*):

- (a) The IASB staff are asked to identify, review and raise issues that might warrant the Board's attention. The IASB's discussion of potential projects and its decisions to adopt new projects take place in public Board meetings. Before reaching such decisions the IASB consults the SAC on proposed agenda items and setting priorities.*
- (b) When adding an item to its active agenda, the IASB decides whether to conduct the project alone, or jointly with another standard-setter.
- (c) After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group.
- (d) Although a discussion paper is not a mandatory step in its due process, the IASB normally publishes a discussion paper as its first publication on any major new topic. Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its authors or the IASB, and an invitation to comment. If the IASB decides to omit this step, it will state its reasons.
- (e) Publication of an exposure draft is a mandatory step in the due process*. The development of an exposure draft is carried out during IASB meetings, conducted in public. It involves the IASB considering and reaching decisions on issues on the basis of staff research and recommendations, as well as comments from any discussion paper, suggestions made by the SAC, working groups and

national standard-setters and arising from public education sessions conducted for the IASB. An exposure draft must be approved by at least nine members of the IASB. An exposure draft will be accompanied by a basis for conclusions and include any alternative views held by dissenting IASB members.

- (f) The IASB reviews the comment letters received* and the results of other consultations. As a means of exploring the issues further, and soliciting further comments and suggestions, the IASB may conduct field visits, or arrange public hearings and round-table meetings.
- (g) The development of an IFRS is carried out during IASB meetings, conducted in public. After resolving issues arising from the exposure draft, the IASB considers whether it should expose any revised proposals for public comment. When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS. An IFRS must be approved by at least nine members of the IASB*. An IFRS will be accompanied by a basis for conclusions and include any dissenting opinions held by IASB members voting against the standard.

Adopting the 'comply or explain' approach that is used by various regulatory bodies, the IASB explains its reasons if it decides to omit any non-mandatory step of its consultative process.

After reviewing its consultative procedures the IASB has made changes in its due process; these are set out in a consultation document on which the Trustees invited public comment in 2005.

IFRIC due process

Interpretations of IFRSs are developed through a formal system of due process and broad international consultation. The IFRIC discusses technical matters in meetings that are open to public observation. The due process for each issue normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IASC Foundation Constitution are indicated by an asterisk*):

- (a) The IFRIC Agenda Committee assesses issues suggested by constituents for addition to the IFRIC agenda and recommends whether the IFRIC should include the issue on its agenda. The Agenda Committee's recommendations and reasons are published as drafts immediately following the IFRIC meeting at which they are presented. This allows time for public comment before the recommendation not to deal with an issue is considered at the following IFRIC meeting.
- (b) The IFRIC considers each issue suggested by a constituent with the Agenda Committee's recommendation, and determines whether to add the item to its agenda. Where the IFRIC decides not to deal with an issue, it publishes the reason for this decision.
- (c) For those issues taken on to the agenda, the IASB staff prepare an issues summary. This describes the issue and provides the information necessary for IFRIC members to gain an understanding of the issue and make decisions about it. Preparation of an issues summary involves a review of the authoritative accounting literature including the IASB *Framework*, consideration of alternatives, and consultation with national standard-setters, including national committees that have responsibility for interpretations of national standards.

- (d) A consensus on a draft Interpretation is reached if no more than three IFRIC members have voted against the proposal.* The draft Interpretation is released for public comment unless five or more IASB members object to its release within a week of being informed of its completion.*
- (e) Comments received during the comment period are considered by the IFRIC before an Interpretation is finalised.*
- (f) A consensus on an Interpretation is reached if no more than three IFRIC members have voted against the proposal.* The Interpretation is put to the IASB for approval. Approval by the IASB requires at least nine IASB members to be in favour.* Approved Interpretations are issued by the IASB.

Voting

The publication of an exposure draft, a Standard or a final Interpretation requires approval by nine of the fourteen members of the IASB. Other decisions of the IASB, including the publication of a discussion paper, require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.

Each voting member of the IFRIC has one vote. Nine voting IFRIC members constitute a quorum. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Approval of draft or final Interpretations requires that not more than three voting members vote against the draft or final Interpretation.

Openness of meetings

Meetings of the Trustees, the IASB, the SAC and the IFRIC are all open to public observation. However, certain discussions (normally about selection, appointment and other personnel issues) are held in private.

The IASB continues to explore how technology can be used to overcome geographical barriers and other logistical problems and thus facilitate public observation of open meetings. The introduction of audio and video and Webcasting on the IASB Website are examples of recent innovations.

The agenda for each meeting of the Trustees, the IASB, the SAC and the IFRIC is published in advance on the IASB's Website, together with Observer Notes, which contain the substance of the papers tabled for the meeting. The IASB also publishes promptly a summary of the technical decisions made at IASB and IFRIC meetings and, where appropriate, decisions of the Trustees.

When the IASB issues a Standard or an Interpretation, it publishes a Basis for Conclusions to explain the rationale behind the conclusions and to provide background information that may help users of IFRSs to apply them in practice. The IASB also publishes its members' dissenting opinions on Standards.

Comment periods

The IASB publishes each exposure draft of a Standard and discussion documents for public comment, with a normal comment period of 120 days. In certain circumstances, the IASB may expose proposals for a longer or shorter period. Draft IFRIC Interpretations are

normally exposed for a 60-day comment period, although a shorter period of not less than 30 days may be used in certain circumstances.

Co-ordination with national due process

The IASB meets national standard-setters and other official bodies concerned with accounting standard-setting annually. In addition, staff members of the IASB and accounting standard-setters co-operate on a daily basis on projects, sharing resources whenever necessary and appropriate. Close co-ordination between the IASB's due process and the due process of accounting standard-setters is important to the success of the IASB. In addition, IASB members are in regular contact with national standard-setters.

Opportunities for input

The development of an International Financial Reporting Standard (IFRS) involves an open, public process of debating technical issues and evaluating input sought through several mechanisms. Opportunities for interested parties to participate in the development of IFRSs include, depending on the nature of the project:

- (a) participation in the development of views as a member of the SAC;
- (b) participation in working groups;
- (c) submission of an issue to the IFRIC (see the IASB Website for details);
- (d) submission of a comment letter in response to a discussion document;
- (e) submission of a comment letter in response to an exposure draft;
- (f) submission of a comment letter in response to a draft Interpretation;
- (g) participation in public hearings and round-table discussions; and
- (h) participation in field visits.

The IASB publishes an annual report on its activities during the past year and priorities for the next year. The report provides a basis and opportunity for comment by interested parties.

Preface to International Financial Reporting Standards

The *Preface to International Financial Reporting Standards* sets out the objectives and due process of the IASB and explains the scope, authority and timing of application of IFRSs.

Preface to International Financial Reporting Interpretations

The *Preface to International Financial Reporting Interpretations* sets out the responsibilities and due process of the IFRIC.

IASB Framework

The IASB has a *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* assists the IASB:

- (a) in the development of future IFRSs and in its review of existing IFRSs; and
- (b) in promoting the harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRSs.

In addition, the Framework may assist:

- (a) preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of a Standard or an Interpretation;
- (b) auditors in forming an opinion on whether financial statements conform with IFRSs;
- (c) users of financial statements in interpreting the information contained in financial statements prepared in conformity with IFRSs; and
- (d) those who are interested in the work of IASB, providing them with information about its approach to the formulation of accounting standards.

The Framework is not an IFRS. However, when developing an accounting policy in the absence of a Standard or an Interpretation that specifically applies to an item, an entity's management is required to refer to, and consider the applicability of, the concepts in the Framework (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

In a limited number of cases there may be a conflict between the Framework and a requirement within a Standard or an Interpretation. In those cases where there is a conflict, the requirements of the Standard or Interpretation prevail over those of the Framework.

Accounting standards

IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRSs). Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the Board of the International Accounting Standards Committee. The term 'International Financial Reporting Standards' includes IFRSs, IASs and Interpretations originated by the IFRIC or its predecessor, the former Standing Interpretations Committee (SIC).

Benchmark and allowed alternative treatments

In some cases, IFRSs permit different treatments for given transactions and events. In limited cases, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial statements of an entity may appropriately be described as being prepared in accordance with IFRSs whether they use the benchmark treatment or the allowed alternative treatment.

The IASB's objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, the IASB intends not to permit choices in accounting treatment. Also, the IASB has reconsidered, and will continue to reconsider, those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.

Staff advice

The IASB's Operating Procedures do not generally allow IASB staff to give advice on the meaning of IFRSs.

Current technical activities

Details of the IASB's and the IFRIC's current technical activities, including the progress of the IASB's and the IFRIC's deliberations, are available on the IASB Website. As projects are completed, the IASB expects to add new projects. The IFRIC adds topics to its agenda on the basis of an assessment of issues submitted to it by constituents.

The IASB reports on its technical projects in its quarterly newsletter, *IASB Insight*, and on its Website. The IASB publishes a report on its decisions promptly after each IASB meeting in *IASB Update*. The IFRIC publishes a report on its decisions promptly after each IFRIC meeting in *IFRIC Update*.

IASB/IASC Foundation publications and translations

The IASC Foundation holds the copyright of International Financial Reporting Standards, International Accounting Standards, Interpretations, exposure drafts, and other IASB publications in all countries, except where the IASC Foundation has expressly waived copyright on portions of that material. For more information regarding the IASC Foundation's copyright, please refer to the copyright notice with this edition or the IASC Foundation's Website.

Approved translations of International Financial Reporting Standards are available in over 30 languages, including all major European and Asian languages. The IASC Foundation will consider making approved translations available in other languages. For more information, contact the IASC Foundation's Director of Operations.

Although the IASC Foundation makes every reasonable effort to translate IFRSs into other languages on a timely basis, a rigorous process must be followed to ensure that the translations are as accurate as possible. For that reason, there may well be a lag between when a Standard or an Interpretation is issued by the IASB (in English) and when it is issued in other languages. Further details are available on the IASB Website (www.iasb.org/resources/translations.asp) and from the IASC Foundation's Publications department.

More information

The IASB Website, at www.iasb.org, provides news, updates and other resources related to the IASB and the IASC Foundation. The latest publications and subscription services can also be ordered from the IASC Foundation's Shop at www.iasb.org/shop.

For more information about the IASB, or to obtain copies of its publications and details of the IASC Foundations's subscription services, visit the IASB Website at www.iasb.org, or write to:

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IASC Foundation Constitution

Preface

This Constitution was approved in its original form by the Board of the former International Accounting Standards Committee (IASC) in March 2000 and by the members of IASC at a meeting in Edinburgh on 24 May 2000.

At its meeting in December 1999, the IASC Board had appointed a Nominating Committee to select the first Trustees. These Trustees were nominated on 22 May 2000 and took office on 24 May 2000 as a result of the approval of the Constitution.

In execution of their duties under the Constitution, the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001. As a consequence of a resolution by the Trustees, Part C of the revised Constitution approved on 24 May 2000 ceased to have effect.

Reflecting the Trustees' decision to create the International Financial Reporting Interpretations Committee, and following public consultation, the Constitution was revised on 5 March 2002. Subsequently the Trustees amended the Constitution, with effect from 8 July 2002, to reflect other changes that had taken place since the formation of the IASC Foundation.

The Constitution requires the Trustees to review the Constitution every five years. The Trustees initiated the first review in November 2003 and following extensive consultation completed the review in June 2005. This version reflects changes adopted and approved by the Trustees on 21 June 2005 for effect on 1 July 2005.