The International Financial Reporting Interpretations Committee met in London on 30 September and 1 October 2003, when it discussed:

- Decommissioning funds
- Draft Interpretation D1 *Emission Rights* – comments received
- First-time application of IAS 29
- IAS 11: combining and segmenting contracts
- IAS 19: defined contribution pension plans with a guaranteed minimum return on assets
- IAS 19: multi-employer pension plans
- IAS 41: recognition and measurement of biological assets
- Rights of use of assets
- Service concession arrangements

Decommissioning and environmental rehabilitation funds

The IFRIC continued its discussion from the July meeting on decommissioning and environmental rehabilitation funds and considered a draft Interpretation.

The IFRIC voted to issue the draft Interpretation for public comment, subject to the following minor changes:

(a) clarification that the right to reimbursement is proposed to be measured at the lower of (i) the amount of the decommissioning obligation recognised and (ii) the fair value of the entity's right to reimbursement, measured as the entity's share of the fair value of the net assets of the fund adjusted for actual or expected factors that affect the entity's ability to access these assets

(b) bringing into the consensus section of the Interpretation the proposed requirement that changes in the carrying value of the reimbursement right are recognised immediately in profit or loss, and

(c) revision of the proposed period between finalisation of the Interpretation and its effective date to three months.

Emission rights

The IFRIC discussed the analysis of comments received in response to the proposals contained in IFRIC Draft Interpretation D1 *Emission Rights* issued in May 2003.

After considering the comments received (including suggested alternative interpretations), the IFRIC confirmed its view that the proposals in D1 are the most appropriate interpretation of International Financial Reporting Standards. The IFRIC therefore confirmed that:

(a) emission rights ('allowances'), whether allocated by government or purchased in the market, are intangible assets and are accounted for in accordance with IAS 38 *Intangible Assets*. Allowances that are allocated for less than fair value are recognised at fair value.

(b) when allowances are allocated by government for less than fair value, the difference between their fair value and the amount paid is a government grant that is accounted for in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance*.

(c) as emissions are made, a provision is recognised for the obligation to deliver allowances to cover those emissions (or to pay a penalty). The provision is accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and therefore is normally measured at the market value of the required number of allowances.

The IFRIC noted that many respondents had expressed concern about the lack of symmetry in the accounting, which resulted in what they viewed as 'artificial' volatility of reported profit or loss. The IFRIC noted that this arose because IFRSs contain both a mixed measurement model (whereby some items are measured at cost and others at fair value) and a mixed presentation model (whereby some gains and losses are reported in profit or loss and others in equity). In particular, when allowances are carried under the allowed alternative treatment in IAS 38 (ie at fair value), changes in value of the allowances above cost are recognised in equity while changes in value of the liability for the obligation to deliver allowances are recognised in profit or loss. The IFRIC therefore instructed the staff to explore whether it would be possible to address this mismatch by defining a narrow sub-set of intangible assets, which would include allowances that are traded in an active market, that should be measured at fair value but with changes in fair value recognised in profit or loss.

The IFRIC agreed that, should it be able to define satisfactorily such a narrow sub-set of intangible assets to be treated in this way, it would consider asking the Board to amend IAS 38. However, the IFRIC also agreed that, should it be unable to define satisfactorily this sub-set of intangible assets or should the Board be unable to amend IAS 38 in the short term, it would finalise the Draft Interpretation in substantially its present form.

The IFRIC discussed the scope of the Interpretation, and agreed that it should continue to focus on the principal issues raised by 'cap and trade' emission rights schemes. The IFRIC also agreed that the Interpretation would not address the

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Emission rights (continued)

additional issues that arise for renewable energy certificates (RECs), but agreed that it would consider addressing them in a separate Interpretation.

Finally, in the light of comments received, the IFRIC instructed the staff to consider (a) whether the Interpretation should require any disclosures in addition to those required by existing Standards and (b) whether any additional guidance is required for circumstances when there is no active market for allowances.

Commencing to apply IAS 29 *Financial Reporting in Hyperinflationary Economies*

The IFRIC discussed whether to take on to its agenda the issue of how an entity should apply IAS 29 *Financial Reporting in Hyperinflationary Economies* in the first year it identifies the existence of hyperinflation.

IAS 29 is based on a restatement approach. However, it is not clear how an entity should restate items that are neither monetary nor non-monetary in nature, eg deferred tax assets and deferred tax liabilities.

The IFRIC considered two approaches:

(a) the deferred tax assets and deferred tax liabilities (in nominal value) is restated as a monetary item in accordance with the general approach in IAS 29.

(b) an entity should effectively re-create an opening balance sheet in the first year it applies IAS 29 as it has always applied IAS 29. The re-created opening balance should then be restated in accordance with the general approach in IAS 29.

The IFRIC agreed to take a project on hyperinflation on to its agenda with the aim to issue guidance on how to apply IAS 29 in the first year an entity identifies the existence of hyperinflation. The IFRIC tentatively agreed that such guidance should be based on an approach that IAS 29 is applied as if the entity always has applied the Standard.

IAS 11 *Construction Contracts*: combining and segmenting contracts

In May 2003, the Board asked the IFRIC to consider the guidance for combining and segmenting contracts in AICPA Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* with a view to:

(a) adding guidance in IAS 11 *Construction Contracts* on the criteria for combining contracts

(b) clarifying that the conditions in IAS 11 for combining contracts are such that it will be very rare for a group of contracts with more than one customer to meet those conditions

(c) considering whether the additional criteria for segmenting contracts in US GAAP are consistent with the requirements in IAS 11.

In July 2003, the IFRIC considered the Board's request and concluded that its preferred approach would be to develop an Interpretation that would provide guidance on the criteria in IAS 11 for segmenting and combining contracts. If possible, this guidance would be based on that in SOP 81-1.

In September 2003, the IFRIC discussed a proposed Draft Interpretation. The IFRIC agreed to use the material selected from SOP 81-1 so that IAS 11 could be interpreted as being consistent with US GAAP with respect to the conditions under which combining or segmenting contracts was appropriate. It was noted that under IAS 11 combining or segmenting is required whenever the criteria for doing so were met, whereas US GAAP is permissive. Thus, it would be possible for an IFRS-compliant entity to assert compliance with US GAAP.

The IASB staff expressed a concern that the IFRIC would effectively be amending IAS 11 by issuing such an Interpretation. The IFRIC noted this concern but requested the staff to proceed to develop an Interpretation that incorporated the US guidance. Any proposed Draft Interpretation would be submitted to the Board for its positive approval.

The IFRIC also noted that there was a need to test the proposed Interpretation against the accounting treatment for contracts involving multiple deliverables, recognising sensitivity to issues under consideration by the Board in IAS 18 *Revenue*. The staff was asked to return at the next meeting with research on the revenue question.

The staff will redraft the proposed Interpretation for presentation at the next meeting.

IAS 19 *Employee Benefits*: Plans that would be defined contribution plans but for the existence of a minimum return guarantee

The IFRIC has been considering how to account for a plan that would be a defined contribution plan but for the existence of a minimum return guarantee. The terms of the plan are that a contribution is made each year based on the employee's current salary and the employee receives a benefit (a lump sum or an annuity) equal to the contributions paid into the plan plus the return generated on the assets acquired. The employer guarantees a minimum return on the assets over the period to when the benefit is paid.

The IFRIC considered a draft Interpretation that stated that such plans are defined benefit plans under IAS 19 and explained how defined benefit accounting should be applied to such plans. The main issues addressed were:

(a) Whether an additional liability to that arising from the defined benefit methodology should be recognised so that the total plan liability equals the higher of (i) the plan liabilities calculated under the defined benefit methodology and (ii) the assets that would be due to the employees if they left service. IFRIC agreed that it should. It was also agreed that the Basis for Conclusions should note why the present value of the benefits arising from the defined contribution element was equal to the value of the assets at the balance sheet date. Otherwise, it might be thought that the benefits were not being discounted to reflect their expected date of payment, which would be inconsistent with previous IFRIC decisions under IAS 19.

(b) Whether the draft Interpretation should describe the calculation required for periods in which the plan liabilities equal the assets as defined contribution accounting. IFRIC agreed that the draft Interpretation should describe the process as defined benefit accounting throughout but should note that, in specified circumstances, the overall effect would be the same defined contribution accounting.

(c) Whether the cost for periods in which the plan liabilities equal the assets (ie the contribution payable) should be analysed into components as required by IAS 19 under defined benefit accounting. IFRIC agreed that the costs for the defined benefit element should continue to be analysed and disclosed and the impact of the defined contribution element should be presented as a single additional component.

(d) Whether the draft Interpretation should apply only to funded plans with a guarantee of a fixed return, or whether it was also applicable to plans with a guarantee based on the return on an index or reference asset. The IFRIC agreed that the draft Interpretation was applicable to plans with a guarantee based on the return on an index or reference asset and that the scope of the Interpretation should be generally be made more clear and specific.

It was agreed that a pre-ballot draft of the draft Interpretation would be circulated for comment and a ballot draft brought to the next meeting.

IAS 19 *Employee Benefits*: Multi-employer plans

The IFRIC considered a draft Interpretation that (i) clarified when plans would meet the definition of a multi-employer plan, (ii) explained how defined benefit accounting should be applied by participants in multi-employer plans and (iii) in the light of the former, included some discussion of when sufficient information might or might not be available.

The IFRIC agreed to revise the draft Interpretation to:

(a) clarify that state plans are not covered by the draft Interpretation

(b) state that the objective of the Interpretation is to recognise an asset or liability that reflects an appropriate amount of the surplus or deficit in the plan, the appropriate amount being the extent to which the surplus/deficit affects the entity's future contributions

(c) give examples of the different ways in which this objective might be met, such as an allocation based on expected future contributions, an allocation based on current contributions and/or an amount reflecting any penalty for withdrawing from the plan

(d) add material to the Basis for Conclusions setting out the concerns of some IFRIC members that the information necessary for defined benefit accounting is so rarely available that requirements in IAS 19 would be better replaced by an unqualified exemption for participants in multi-employer plans

(e) make editorial changes.

It was also agreed that the staff would consider possible questions on the availability of information to be included in an invitation to comment.

It was agreed that a pre-ballot draft of the draft Interpretation would be circulated for comment and a ballot draft brought to the next meeting.

IAS 41 *Agriculture*: Recognition and measurement of biological assets

The IFRIC considered whether to take on to its agenda the following issues:

(a) how to calculate fair value of a biological asset using a discounting model.

(b) how to account for a legal or constructive obligation to replant a biological asset after harvest.

Calculation of fair value

IAS 41 Agriculture requires an entity to measure a biological asset at its fair value. If neither an active market nor a market-determined price exist, the IAS 41 states that the entity determines fair value of a biological asset in its present location and condition as the present value of expected net cash flow from that asset. The IAS 41 also states that the present condition of a biological asset excludes any increase in value from additional biological transformation.

The IFRIC considered the meaning of 'additional biological transformation'. In particular, the IFRIC discussed the implication of this exclusion for the value of potential future growth, which would, arguably, be part of the fair value of the biological asset in its present location and condition.

The IFRIC agreed to take the issue on to its agenda with the aim to issue an Interpretation clarifying the meaning of fair value; ie that the exclusion of 'additional biological transformation' does not exclude the expected value of potential future growth from the fair value of a biological asset in its present location and condition. The IFRIC also agreed that the Interpretation should clarify that fair value of a biological asset in its present location and condition is not the harvest value at the balance sheet date.

However, the IFRIC noted that developing specific guidance for measuring fair value is not an accounting issue and that development of such guidance would be best left to industry and valuers.

Obligation to replant

In some jurisdictions, an entity has a legal (or constructive) obligation to replant or restore a biological asset after harvest.

The IFRIC discussed whether the costs of replanting should be considered as creating a new (valuable) asset, or whether such costs should be considered as decommissioning costs.

The IFRIC requested the staff to explore further on this topic and will continue its deliberations at a later meeting.

Rights of use

The IFRIC approved an exposure draft of an Interpretation *Determining whether an Arrangement contains a Lease*. The draft Interpretation should be issued for public comment later in October 2003.

The draft Interpretation states that there are three key elements necessary for an agreement to contain a lease:

(a) fulfilment of the agreement depends upon use of a specific item or items ('the asset')

(b) the agreement conveys a right to use the asset for a specific period that allows the purchaser to exclude others from using the asset

(c) the purchaser is obliged to make payments to the supplier for the time that the asset is made available rather than for actual use of the asset.

In addition, the assessment of whether an agreement contains a lease should be made at inception of the agreement and only changes to the provisions of the agreement should result in that reassessment.

Service concession arrangements

The IFRIC had a preliminary discussion of the issues that arise when applying existing IFRSs and Interpretations to service concession and similar arrangements. The objective of the discussion was to identify issues that the IFRIC might address and the order in which those issues might be addressed. The issues that the IFRIC tentatively decided to address were:

(a) the extent to which IAS 17 *Leases*' lease accounting model is relevant to the accounting treatment of service concession, and the extent to which other models are also relevant.

(b) if the lease accounting model is relevant, and taking into account conceptual and practical issues, how should that model be applied to transactions that appear to involve several asset transfers and separate asset components? For example, should it be applied to the transaction as a whole or to each component of each transfer? Is additional guidance needed on how to apply IAS 17's 'substantially all the risks and rewards incident to ownership' test to such transactions?

(c) do obligations arise from service concession arrangements that are not lease obligations or other obligations that relate to equally unperformed executory contracts? If so, how should they be accounted for?

(d) is guidance needed on the determination of the residual value of an asset that is to be handed-over to the concession provider at the end of the concession period and, if so, what should that guidance be?

(e) whether (and if so in what circumstances) it is appropriate, when accounting for concession income and expenses, to (i) apply percentage of completion accounting and/or (ii) recognise as an asset an entity's right under a concession arrangement to recover its costs.

Amongst the issues that the IFRIC decided not to address was the treatment of bid and other pre-contract costs.

The IFRIC will commence its discussion of certain of these issues at its next meeting. For that meeting, it has asked the staff to provide comprehensive example transactions to assist it in scoping its discussions and to identify further issues that might need to be addressed.

Items not taken on to the agenda

Listed below are decisions of the IFRIC not requiring publication of an Interpretation. A comprehensive list of all the items for which the IFRIC has agreed not to require publication of an Interpretation can be found on the IASB's Website.

IAS 16 and IAS 17: Consideration of the issues addressed in UITF Abstract 36 *Contracts for sale of capacity*

The IFRIC considered whether it should add to its agenda the issue of contracts for sales of capacity ('sales' contracts that convey to the purchaser a right to use, for an agreed period, some or all of the capacity of a network operated by the seller). Examples of these contracts are found in the telecommunication and electricity industries, where entities buy and sell capacity on each other's networks. The UK Urgent Issues Task Force recently issued Abstract 36 *Contracts for sales of capacity*.

The IFRIC agreed that consideration of whether it should develop guidance on this issue should wait until it finalises its draft Interpretation *Determining Whether an Arrangement Contains a Lease*. It also noted that it would be preferable to address exchanges of similar assets more broadly, rather than just in respect of network capacity.

The 'closely related' criterion for embedded derivatives in IAS 39

The IFRIC discussed the issue of whether to provide guidance on the meaning of 'closely related' in the context of embedded derivatives in IAS 39 *Financial Instruments: Recognition and Measurement*. The Board's view had been obtained on this matter and it was agreed, consistent with the Board's view, that it should not be taken on to the agenda, given the impending revisions to IAS 39.

Future meetings and requests for Interpretations

The IFRIC's meetings for the remainder of 2003 and 2004 are expected to take place in London, UK, as follows:

2 and 3 December 2003
3 and 4 February 2004
23 and 24 March 2004
4 and 5 May 2004
3 and 4 June 2004
29 and 30 July 2004
7 and 8 October 2004
2 and 3 December 2004

The 2004 meeting dates are under review and may be changed in the near future.

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB Website at www.iasb.org.uk before the meeting. Interested parties may also submit requests for Interpretations through the IASB Website.