IFRIC Update

From the International Financial Reporting Interpretations Committee

March 2010

Welcome to IFRIC Update

IFRIC Update is published as a convenience to the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future Interpretations Committee meetings. Decisions become final only after the IFRIC has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The IFRIC met in London on **4 and 5 March 2010**, when they discussed:

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Future IFRIC meetings

The next meetings in 2010 are:

6 and 7 May
8 and 9 July
2 and 3 September
4 and 5 November

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Accounting for production stripping costs

In November 2009, the IFRIC decided to add this issue to its agenda. At the January 2010 meeting, the IFRIC tentatively decided on the wording for the scope concept of the proposed interpretation. The staff presented two papers at the March 2010 meeting: first, a paper discussing the accounting for the costs of waste removal and the associated benefit. The second paper discussed attribution of the stripping cost asset.

In respect of the costs of waste removal and the associated benefit, the IFRIC tentatively agreed the following:

- The benefit to the entity is of improved access to the ore to be mined. The IFRIC considered whether this benefit is an improvement of (or addition to) an existing asset, or an asset in its own right;
- The accounting principles of IAS 16 *Property, Plant and Equipment* should apply. However the decision on whether the asset meets the definition of property, plant and equipment or of an intangible asset will be considered at a future meeting;
- The benefit should be allocated to current and future periods using the specific identification approach.

The IFRIC tentatively agreed that the unit of account is the stripping campaign.

The IFRIC also tentatively agreed that the asset created should be attributed over the specific ore reserves that benefited from the stripping campaign.

The staff agreed to present a draft interpretation at the May 2010 IFRIC meeting for discussion.

Go to the project page on the IASB website

Go to the top of this page

Vesting and non-vesting conditions

At the January 2010 meeting, the IFRIC decided to add to its agenda a request to clarify the basis on which vesting conditions, especially performance conditions, can be distinguished from non-vesting conditions. Specifically, the IFRIC was asked how to distinguish between a service condition, a performance condition and a non-vesting condition. Additionally, the IFRIC was asked for clarification on the interaction of multiple conditions.

At the March 2010 meeting, the IFRIC received an update from the staff. The IFRIC began preliminary deliberations on the scope of this project and provided input to assist the staff in its research and analysis. The IFRIC asked the staff to consider whether convergence with US GAAP on this matter would be helpful. The IFRIC plans to continue its discussion at the May 2010 meeting.

Go to the project page on the IASB website

Go to the top of this page

IFRIC agenda decisions

The following explanation is published for information only and does not change existing IFRS requirements*. IFRIC agenda decisions are not Interpretations. IFRIC Interpretations are determined only after extensive deliberation and due process, including a formal vote. IFRIC Interpretations become final only when approved by the IASB.*

***IAS 21 The Effects of Changes in Foreign Exchange Rates*— Determination of functional currency of an investment holding company**

The IFRIC received a request for guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company.

IAS 21 paragraphs 9—11 provide factors to be considered in determining the functional currency of an entity. Paragraph 12 states that when the 'indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions'. In addition, paragraph 17 of IAS 21 requires that an entity determine its functional currency in accordance with paragraphs 9—14 of the standard. Therefore, paragraph 9 should not be considered in isolation when determining the functional currency of an entity.

Consequently, how an entity applies IAS 21 for the purpose of determining its functional currency— whether it is an investment holding company or any other type of entity — requires the exercise of judgement. IAS 1 *Presentation of Financial Statements* requires disclosure of significant accounting policies and judgements that are relevant to an understanding of the financial statements.

The IFRIC noted that any guidance it could provide would be in the nature of application guidance rather than an interpretation. Therefore, the IFRIC decided not to add the issue to its agenda.

***IAS 32 Financial Instruments: Presentation*— Shareholder discretion**

The IFRIC received a request for guidance on whether a financial instrument, in the form of a preference share that includes a contractual obligation to deliver cash, is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders.

The IFRIC noted that paragraph AG26 of IAS 32 identifies that when distributions to holders of preference shares are at the discretion of the issuer, the shares are equity instruments.

The IFRIC identified that diversity may exist in practice in assessing whether an entity has an unconditional right to avoid delivering cash if the contractual obligation is at the ultimate discretion of the issuer's shareholders, and consequently whether a financial instrument should be classified as a financial liability or equity.

The IFRIC noted that the Board is currently undertaking a project to improve and simplify the financial reporting requirements for financial instruments with characteristics of equity. The main objectives of this project are to develop a better distinction between equity and non-equity instruments and converge IFRSs and US GAAP.

Consequently, the IFRIC recommended that the Board address this issue as part of its current project on *Financial Instruments with Characteristics of Equity*. The Board's project is expected to address the distinction between equity and non-equity instruments in a shorter period than the IFRIC would require to complete its due process. Therefore, the IFRIC decided not to add this issue to its agenda.

***IAS 36 Impairment of Assets*— Interaction with transition requirements of IFRS 8**

The IFRIC received a request for guidance on the transition requirements in IFRS 8 *Operating Segments* and its interaction with IAS 36.

The IASB made a consequential amendment to IAS 36 when it issued IFRS 8 in November 2006. The consequential amendment replaced the reference to 'segments' (as determined in accordance with IAS 14 *Reporting Segments*) to 'operating segments' (as determined in accordance with IFRS 8). In particular, paragraph 80(b) of IAS 36 was amended to refer to IFRS 8 when setting the limit for the aggregation of cash-generating units when testing for goodwill impairment. Previously, the limit had been set by reference to segments identified by IAS 14. The IFRIC noted that when entities test goodwill for impairment in the first year of adoption of IFRS 8 some entities may need to recognise an impairment loss for goodwill, at least in part because of these changes in the segment definitions.

The question asked of the IFRIC is whether any incremental goodwill impairment loss (that would have been recognised in a prior period if cash-generating units had been grouped by reference to IFRS 8) determined as a result of retrospective application of the change from IAS 14 to IFRS 8 should be presented as a prior period adjustment or a current period event.

The IFRIC noted that IFRS 8 is effective for annual periods beginning on or after 1 January 2009 and therefore applicable for entities with annual periods ending 31 December 2009 and thereafter. Based on the required due process procedures included in the IFRIC *Due Process Handbook*, it would not be able to provide guidance on a timely basis. Therefore, the IFRIC decided not to add the issue to its agenda.

***IAS 39 Financial Instruments: Recognition and Measurement*— Unit of account for forward contracts with volumetric optionality**

The IFRIC received a request to add an item to its agenda on providing guidance on whether a contract that (a) obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash and (b) that provides the counterparty with the option to purchase also at a fixed price a fixed number of additional units of the same item can be assessed as two separate contracts for the purpose of applying paragraphs 5—7 of IAS 39.

Although the IFRIC recognised that significant diversity exists in practice, it noted that the Board has accelerated its project to develop a replacement for IAS 39 and expects to issue a new standard by the end of 2010. The Board will consider the scope of IAS 39, including the guidance about contracts to buy or sell non-financial items in IAS 39.5—7, as part of the replacement for that standard. Therefore, the IFRIC decided not to add this issue to its agenda.

Go to the IFRIC pages on the IASB website

Go to the top of this page

Tentative agenda decisions

The IFRIC reviewed the following matters and tentatively decided that they should not be added to the IFRIC agenda. These tentative decisions, including recommended reasons for not adding the items to the IFRIC agenda, will be reconsidered at the IFRIC meeting in May 2010. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to communicate those concerns by 12 April 2010 by email to: ***ifric@iasb.org****. Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

***IFRS 1 First-time Adoption of International Financial Reporting Standards*— Accounting for costs included in self-constructed assets on transition**

The IFRIC received two requests concerning the application of IFRSs for an entity that capitalises certain costs, including actuarial gains and losses, as part of self-constructed assets, in accordance with its previous GAAP accounting policies. On transition to IFRSs, the entity changes its accounting policy for actuarial gains and losses and determines that they should no longer be capitalised. The requests ask whether the entity should adjust the carrying amount of self-constructed assets on transition to IFRSs and, if not, how the change in its actuarial gains and losses accounting policy should be reflected in the carrying amount of self-constructed assets in subsequent reporting periods.

The IFRIC noted that paragraph 7 of IFRS 1 requires an entity to use 'the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements'.

The IFRIC concluded that the issue is not currently widespread, although it may impact certain entities in jurisdictions transitioning to IFRS, and that there are not significantly divergent interpretations (either emerging or already existing in practice). Therefore, the IFRIC [decided] not to add this issue to its agenda.

***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*— Reversal of disposal group impairment losses relating to goodwill**

The IFRIC received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill.

The IFRIC noted a potential conflict between the guidance in paragraph 22 and paragraph 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill. However, the IFRIC also observed that the issue may not be resolved efficiently within the confines of existing IFRSs and the Framework and that it is not probable that the IFRIC will be able to reach a consensus on a timely basis.

The IFRIC also noted the decision taken by the Board in December 2009 not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. Consequently, the IFRIC [decided] not to add this issue to its agenda and recommended that the Board address this issue in a post-implementation review of IFRS 5.

***IAS 26 Accounting and Reporting by Retirements Benefit Plans*—Valuation of plan assets**

A request was received to clarify the interaction between IAS 26 and IAS 39 *Financial Instruments: Recognition and Measurement* relating to the accounting for retirement benefit plan investments (plan assets), in the financial statements of retirement benefit plans prepared in accordance with IAS 26.

The IFRIC observed that the guidance in paragraph 32 of IAS 26 is clear that plan assets shall be carried at fair value. The IFRIC also noted that it is clear that changes in the fair value of plan assets should be presented and disclosed in accordance with paragraph 35 of IAS 26 in the statement of changes in net assets available for benefits.

The IFRIC concluded that IFRSs are clear and that divergent interpretations are not expected in practice. Consequently, the IFRIC [decided] not to add this issue to its agenda or to recommend an amendment to the standards.

Go to the project page on the IASB website

Go to the top of this page

Annual Improvements

The IFRIC assists the IASB in Annual Improvements by reviewing proposed improvements to IFRSs and making recommendations to the Board. Specifically, the IFRIC involvement includes reviewing and deliberating issues for their inclusion in future exposure drafts of proposed Improvements to IFRSs and deliberating the comments received on the exposure drafts. When the IFRIC has reached consensus on an issue included in Annual Improvements, the recommendation (including finalisation of the proposed amendment or removal from Annual Improvements) will be presented to the Board for discussion, in a public meeting, before being finalised. Approved Improvements to IFRSs (including exposure drafts and final standards) are issued by the Board.

2008-2010 Cycle

At its meeting in January 2010, the IFRIC deliberated the comments received on seven proposed amendments included in the exposure draft of proposed Improvements to IFRSs published in August 2009. At the March 2010 meeting, the IFRIC deliberated the comments received on the remaining eight proposed amendments included in the exposure draft of proposed *Improvements to IFRSs* published in August 2009. The IFRIC also reviewed an analysis of respondents to the exposure draft of proposed *Improvements to IFRSs* published in August 2009.

Proposed amendments recommended for finalisation

The IFRIC confirmed its recommendations for the Board to finalise six of the proposed amendments, subject to its final review of drafting changes, and submitted the proposed amendments to the Board for finalisation at a future Board meeting. Subject to finalisation, the Board will include the amendments in the *Improvements to IFRSs* expected to be issued in April 2010. The confirmed proposed amendments include:

***IFRS 1 First-time Adoption of International Financial Reporting Standards* —Accounting policy changes in the year of adoption**

The IFRIC recommended the Board finalise the proposed amendment to clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements, it should explain those changes and update the reconciliations to IFRS from previous GAAP of its equity and total comprehensive income.

***IFRS 3 Business Combinations*—Un-replaced and voluntarily replaced share-based payment transactions**

The IFRIC recommended the Board finalise the proposed amendment to clarify the accounting for replaced and un-replaced share-based payments in connection with a business combination.

Having considered the comments received, the IFRIC decided to re-order and simplify the guidance of how to determine when an acquirer is obliged to replace share-based payment transactions of the acquiree, without changing the intent of the proposed amendment. The IFRIC also decided to clarify application of the transition provisions and to reflect in the Basis for Conclusions the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination.

***IAS 1 Presentation of Financial Statements*—Clarification of statement of changes in equity**

The IFRIC recommended the Board finalise the proposed amendment to state explicitly that an entity shall present the changes in components of equity either in the statement of changes in equity or in the notes to the financial statements.

As part of its deliberations on the comments received, the IFRIC further recommended to retain the current wording of paragraph 107 of IAS 1 — subject to minor edits — to emphasise that dividends recognised as distributions need be disclosed separately.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors —Change in terminology to the qualitative characteristics

The IFRIC conditionally recommended the Board finalise the proposed amendment to enhance consistency with the terminology changes made in the forthcoming conceptual framework that will replace the *Framework*. The IFRIC noted its recommendation to the Board is subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*.

IAS 27 Consolidated and Separate Financial Statement—Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31

The IFRIC recommended the Board finalise the proposed amendment to clarify that the consequential amendments made to IAS 21, IAS 28 and IAS 31 as a result of the 2008 amendment of IAS 27 require prospective application.

IFRIC 13 Customer Loyalty Programmes—Fair value of award credits

The IFRIC recommended the Board finalise the proposed amendment to clarify the meaning of the term 'fair value'. Having considered the comments received, the IFRIC recommended to clarify that the fair value of awards in paragraph AG2(a) reflects, for example, the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, the IFRIC recommended the Board amend the Illustrative Examples to extend the examples to possible redemption in goods rather than in cash only.

Review of illustrative examples to previously recommended proposed amendment

The IFRIC deliberated illustrative examples relating to the proposed amendment for IFRS 3 *Business Combinations* — Measurement of non controlling interests. These illustrative examples will be included in the proposed amendment presented to the Board for review and potential finalisation.

Proposed amendments recommended for removal, without finalisation, from _Annual Improvements_

The IFRIC recommended the Board not finalise two of the proposed amendments included in the exposure draft of proposed Improvements to IFRSs published in August 2009. The IFRIC also recommended that these two proposed amendments should be formally removed from *Annual Improvements*:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* — Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity. As a follow up to the Board's February 2010 tentative decisions relating to the *Joint Arrangements* project and the definition of 'significant economic events', the IFRIC recommends that the Board address this issue as part of that project.
- IAS *40 Investment Property*—Change from fair value model to cost model. The IFRIC recommends that the Board address this issue as part of a separate project.

Additionally, the staff provided an update to the IFRIC regarding one proposed amendment that was deliberated at the January 2010 IFRIC meeting. At that meeting, the IFRIC recommended the Board confirm a proposed amendment to IAS 28 *Investments in Associates* related to the 'Partial use of fair value for measurement of associates'. At the February 2010 Board meeting, the Board tentatively decided to address this issue within the *Joint Arrangements project*. Therefore, the Board tentatively decided not to finalise this issue within *Annual Improvements* and has tentatively decided to remove this issue from *Annual Improvements*.

2009-2011 Cycle

At its meeting in March 2010, the IFRIC deliberated the following issues and recommended the Board add these issues to *Annual Improvements*. The IFRIC's recommendations will be submitted to the Board for discussion at a future Board meeting. If these issues are confirmed by the Board they will be included in the exposure draft of proposed *Improvements to IFRSs* expected to be published in August 2010. The issues discussed were:

***IAS 32 Financial Instruments: Presentation*—Tax effect of distributions to equity holders**

A request was received to clarify the accounting for the tax effect of distributions to equity holders because of a potential conflict that exists in the guidance in IAS 12 *Income Taxes* and IAS 32. Paragraph 52B of IAS 12 requires that the income tax consequences of dividends paid to shareholders of the entity are recognised in profit or loss except when the circumstances described in paragraph 58(a) and 58(b) of IAS 12 arise. However, paragraph 35 of IAS 32 requires the recognition of income tax relating to distributions to holders of equity instruments in equity.

The IFRIC noted that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income taxes relating to distributions to equity holders. Consequently, the IFRIC recommended the Board amend IAS 32. The amendment will clarify that the income tax effect of both distributions to equity holders and transaction costs relating to equity transactions should be accounted for in accordance with IAS 12.

The IFRIC also recommended to the Board a consequential amendment to paragraph 11 of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* to reflect the proposed amendment to IAS 32.

***IAS 34 Interim Financial Reporting*—Consistency in disclosure of total segment assets**

A request was received for clarification of the requirements in IAS 34 regarding disclosure of segment assets. The concern raised was that IAS 34 could be read as currently requiring disclosure of segment assets regardless of whether that amount is regularly provided to the chief operating decision maker.

The IFRIC disagreed that this is the way in which IAS 34 should be read and decided to propose an amendment to clarify that disclosure of segment assets for a particular segment is required in interim financial reporting only when there has been a material change from the amount disclosed in the last annual financial statements for that segment and when the amounts are regularly provided to the chief operating decision maker.

Issues with recommendations not to be added to the Annual Improvements

The IFRIC deliberated two issues for consideration within *Annual Improvements*. The IFRIC decided to recommend the Board not add the following issues to *Annual Improvements*:

***IFRS 3 Business Combinations*—Contingent consideration and first-time adoption**

At its meeting in February 2010, the Board tentatively decided to finalise an amendment within *Annual Improvements* that clarifies the transition relief for contingent consideration for existing IFRS preparers. At this meeting the IFRIC considered whether similar relief should be provided to first-time adopters. The IFRIC decided not to propose an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide an exemption for first-time adopters on this subject.

***IFRS 8 Operating Segments*— Determination of scope**

The Board received two requests for proposed amendments to the scope of IFRS 8. The requests seek clarification of what is meant by 'public market' and propose expanding the scope of IFRS 8 to require segment disclosures for all entities that issue debt or equity instruments to the public (whether or not in a 'public market').

The IFRIC decided to recommend that the Board not add these issues to *Annual Improvements* as they go beyond the scope for *Annual Improvements*, but rather include a review of the scope of IFRS 8 in a future post implementation review of IFRS 8.

***Annual Improvements* criteria**

At its meeting in March 2010, the IFRIC was asked to provide input for the criteria for assessing issues for inclusion within *Annual Improvements*. The input received from the IFRIC will assist staff in drafting proposed criteria for deliberation by the Trustees of the International Financial Reporting Standards Foundation at a future meeting.

Go to the project page on the IASB website

Go to the top of this page

IFRIC work in progress

***IFRS 1 First-time Adoption of International Financial Reporting Standards* — Fixed date in derecognition exception**

A request was received to replace the fixed date of 1 January 2004 in paragraph B2 of IFRS 1 (relating to the derecognition exception) with 'the date of transition to IFRSs'. The date of 1 January 2004 was originally included as a result of the revision to IAS 39 *Financial Instruments: Recognition and Measurement* in 2003.

The IFRIC debated the following courses of action: changing the fixed date to a relative date (for example the 'date of transition to IFRSs'), deleting paragraph B2 altogether, or making no change to current requirements. The IFRIC noted that they needed more information before they could make a decision.

The IFRIC requested the staff to perform more research and analysis on the issue including review of transition to IFRSs in the context of the *Derecognition project*. The IFRIC also requested the staff to perform outreach activities with members of the National Standard Setters group to understand better the consequence of removing or amending the exception.

The IFRIC plans to continue its discussion of this issue at the May 2010 meeting.

***IAS 1 Presentation of Financial Statements* — Comparative information**

The IFRIC discussed issues in IAS 1 related to the requirements for comparative information specifically when an entity provides some, but not all individual financial statements beyond the minimum comparative information requirements. One issue relates to the interaction of the requirements for compliance with IFRSs, the requirements for comparative information and the concept of 'equal prominence'. The second issue relates to determining the relevant date in instances when a statement of financial position as at the beginning of the earliest comparative period is required in accordance with paragraph 39 of IAS 1.

The IFRIC noted that paragraphs BC22 and BC32 provide the Board's rationale that includes an emphasis on providing information that enables an analysis of the financial statements of the current period. However, the IFRIC also believes that the current guidance in IAS 1 may lead to diversity in practice in understanding the requirements.

At the March joint Board meeting, the IASB and FASB will deliberate these issues in the context of the *Financial Statement Presentation project*. Therefore, the IFRIC's preliminary views discussed at the March 2010 IFRIC meeting will be provided to the Boards for their consideration. At the May 2010 meeting, the IFRIC will continue its deliberation of these issues taking into account the Boards' decisions in the *Financial Statement Presentation project*.

***IAS 21 The Effects of Changes in Foreign Exchange Rates* — Repayment of investment/CTA**

The Board received a request for a proposed amendment to IAS 21. The request proposes a clarification as to the circumstances in which the separate foreign currency equity reserve related to the retranslation of the net assets of an investor's net investment in a subsidiary (often referred to as 'CTA') should be reclassified to profit or loss.

At the March 2010 meeting, the IFRIC did not make any decisions. Rather the IFRIC directed the staff to continue its research and analysis of this issue. The IFRIC will continue its deliberation of this issue at a future meeting.

IFRIC outstanding issues update

The IFRIC reviewed a summary of outstanding issues. With the exception of two outstanding issues, all requests received and considered by the staff were discussed at this meeting. The remaining two issues are expected to be discussed at the May 2010 IFRIC meeting.

Go to the project page on the IASB website

Go to the top of this page