No. 20 / April 2002

The International Financial Reporting Interpretations Committee met on 23 and 24 April in London. At the meeting the IFRIC discussed:

- operating matters
- current agenda items
- a potential new agenda item that it decided not to add to its agenda.

Operating matters

The IFRIC noted the following operating matters:

- IOSCO will now have observer status at the IFRIC Agenda Committee meetings.
- the IASB had decided that:

  (i) bold type would be used to indicate the main principles in IFRSs; and

  (ii) paragraphs in bold and plain types have equal authority.

  The IFRIC will consider the implication of these decisions for Interpretations.
- the Trustees had agreed to shorten the minimum public comment period for draft Interpretations from 60 to 30 days. The shortened comment period will be used by exception for urgent issues – the normal comment period will remain 60 days.

The IFRIC also discussed guidelines for determining effective dates, transitional provisions and first-time application provisions for Interpretations.

Agenda items

The IFRIC discussed the following agenda items:

- *Transactions with owners and common control transactions*

  The IFRIC considered staff proposals on the concepts that underlie accounting for transactions with owners and common control transactions.

  The following two concepts were discussed:

  (i) the reporting entity is distinct from its owners.

  (ii) equity is a residual interest in the assets of the entity after deducting all of its liabilities. The amount at which equity is shown is dependent upon the measurement of assets and liabilities.

  Their application was then discussed in relation to the measurement of contributions of equity and of distributions to owners.

  The purpose of the discussion was to assist the IFRIC in determining (i) how to deal with future requests for interpretations and (ii) how to provide input to the IASB.

  The IFRIC agreed to continue to explore further at a future meeting the accounting principles that should apply to other transactions with owners and common control transactions.

- *Employee benefits – Limit on recognition of an asset*

  Paragraph 58 of IAS 19 imposes a limit on the measurement of a pension asset, commonly referred to as the asset ceiling. In determining that limit, subparagraph 58(b)(ii) requires measurement of the present value of any economic benefits available in the form of both refunds from the plan and reductions in future contributions to the plan. The IFRIC considered staff proposals on guidance on how to measure the present value of economic benefits so available.

  The IFRIC expressed concern over the current wording of the asset ceiling and some members were concerned about the basis of the asset ceiling. The IFRIC asked the staff to prepare a paper on the principles underlying the asset ceiling with a view to giving input to the IASB on this issue.

  In relation to guidance on the asset ceiling as it is currently worded, the IFRIC agreed, on pragmatic grounds, that economic benefits should be regarded as available if the entity has the ability to obtain refunds or reductions in future contributions. An entity should be regarded as having the ability to obtain these items if it (i) has the right to such items or (ii) has the ability to request them and it is probable that any necessary approval (eg from the trustees of the pension plan) will be given.

  The IFRIC will continue its discussions of this matter at a future meeting, including the measurement (as opposed to the existence) of the economic benefits.

- *Financial instruments: Economic compulsion*

  The IFRIC discussed the IASB's proposal to delete the example of economic compulsion contained in paragraph 22 of IAS 32 as part of the Improvements project on IAS 32.

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IASB Publications Department, 7th Floor, 166 Fleet Street, London EC4A 2DY,United Kingdom.
Tel: +44 (0) 20 7427 5927 Fax: +44 (0) 20 7353 0562
email: iasb@iasb.org.uk
Internet: **http://www.iasb.org.uk**
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The following two views were discussed:

(i) that economic compulsion should be considered in determining whether an instrument is a liability.

(ii) that classification of an instrument as a liability should depend on whether a contractual obligation to deliver financial assets exists.

The IFRIC considered various examples of when economic compulsion might arise. It agreed to continue its discussions at a future meeting with a view to determining the principles that underlie the view that economic compulsion should be considered in determining whether a financial instrument is a liability. The aim is to develop material to be considered by the IASB when finalising the improvements to IAS 32.

- *Financial instruments: Distributions at the discretion of the issuer*

Paragraph A21 of the Appendix to IAS 32 requires non-redeemable preferred shares to be classified as equity instruments when distributions to the holders, whether cumulative or non-cumulative, are at the *discretion* of the issuer.

The IFRIC considered various examples that test whether there is *discretion* for distributions on an instrument. In particular, the IFRIC considered an example where a subsidiary issues an instrument and its parent agrees direct with the holders of the instrument additional terms (eg a guarantee) that could affect whether distributions are judged to be discretionary. The IFRIC agreed that, when classifying the instrument (as liability or minority interest) in the consolidated financial statements, those additional terms should be included when determining if the group has discretion over distributions. This follows the principle in paragraph 9 of IAS 27, that the consolidated financial statements should present financial information about the group as that of a single enterprise without regard for the legal boundaries of the separate legal entities.

The IFRIC agreed to ask the IASB to consider the wording of paragraph 17 of IAS 32 along the lines set out above as part of its project on Improvements to IAS 32.

- *Linkage*

Entities sometimes enter into two or more transactions or contracts (hereafter referred to as ‘contracts’) where the accounting treatment differs depending on whether the contracts are accounted for separately or together. The IFRIC had a preliminary discussion of whether it should develop guidance for when such transactions should be regarded as linked for accounting purposes and accounted for together.

The IFRIC considered a number of examples in which this issue arises. It noted that the accounting treatment at issue was often one or more of the following:

(i) whether an asset or liability should qualify for derecognition.

(ii) whether one of more of the contracts should be classified as debt or equity.

(iii) how one or more of the contracts should be measured (eg at fair value or on a cost basis).

(iv) whether revenue should be recognised and, if so, in what period.

The IFRIC agreed that developing principles for when transactions should be regarded as linked for accounting purposes would be helpful for both the IFRIC and its constituents. It also noted that if the IFRIC did not develop such guidance, it might well be asked to consider a number of individual issues in which the question of linkage arises, with the consequent risk of inconsistent guidance being developed piecemeal. For these reasons, the IFRIC agreed to continue to work on developing principles for when contracts should be regarded as linked and accounted for together. However, it noted that it might prove difficult to develop such principles that were both applicable to a variety of different kinds of transactions and did not result in transactions being linked where that was not appropriate.

Potential new agenda items

The following item was not added to the agenda:

- *Employee benefits – Undiscounted vested employee benefits*

The IFRIC considered the possibility of issuing guidance on whether vested benefits payable when an employee left service could be recognised at an undiscounted amount (ie the amount that would be payable if all employees left the entity at the balance sheet date). The IFRIC agreed that it would not issue an interpretation on this matter because the answer is clear under IAS 19: the measurement of the liability for the vested benefits must reflect the expected date of employees leaving service and be discounted to a present value.

- *Current projects of other Interpretative Committees*

The IFRIC discussed current projects being undertaken by the Interpretative Committees of the partner standard-setters, and whether any of these projects might form suitable agenda items for the IFRIC. IFRIC members requested that the Agenda Committee consider some of the items as potential agenda items for the IFRIC.

Future meetings and requests for Interpretations –All meetings in 2002 are expected to be in London.

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