NEWSLETTER OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE

IASB IFRIC UPDATE

July 2009

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 IFRIC 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 9 July 2009, when it discussed:

- Debt to equity swap in a restructuring
- Classification of vesting conditions
- Rights issues denominated in a foreign currency
- Agenda decisions
- Tentative agenda decisions
- Work in progress

Debt to equity swap in a restructuring

The IFRIC received a request to add to its agenda an issue with respect to the application of IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 32 *Financial Instruments: Presentation* when an entity issues its own equity instruments in settlement of debt (referred to as a 'debt to equity swap') in a restructuring. The question is whether the entity should recognise the equity instruments at the carrying amount of the liability or at the fair value of either the liability or the equity instruments issued.

The IFRIC noted that IFRSs do not contain specific guidance on accounting for a debt to equity swap. However, a debt to equity swap could be analysed as consisting of two transactions. First, the borrower issues new equity shares to the lenders for cash and the lenders then accept that amount of cash in full settlement of the liability. The IFRIC noted that IAS 39 would then require an entity to recognise in profit or loss any gain or loss arising from the settlement of the liability. IAS 39 also requires a gain or loss to be recognised in profit or loss when one liability is exchanged for another with substantially different terms. The IFRIC also noted that an entity's equity shares are treated as consideration in both IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations*.

The IFRIC also noted that although IFRSs do not contain a general principle for the initial recognition and measurement of equity shares, guidance on specific transactions includes:

- initial recognition of compound instruments (IAS 32 paragraphs 31 and 32). The amount allocated to the equity component is the residual after deducting the fair value of the financial liability component from the fair value of the entire compound instrument.
- the cost of equity transactions and own equity instruments ('treasury shares') acquired and reissued or cancelled (IAS 32 paragraph 33). No gain or loss is to be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.
- equity instruments issued in share-based payment transactions (IFRS 2 paragraphs 10-23). For equity-settled share-based payment transactions, the entity measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received (eg transactions with employees), the entity measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

The IFRIC further noted that the general principle of IFRSs is that equity is a residual and should be measured by reference to changes in assets and liabilities (the *Framework* and IFRS 2). Therefore, equity instruments issued in a debt to equity swap should be measured at the fair value of the liability settled. The IFRIC was concerned that entities might encounter practical difficulties in measuring the fair value of a liability in a restructuring. Therefore the IFRIC concluded that equity instruments issued in a debt to equity swap should be measured at the fair value of the liability settled or the fair value of the equity instruments issued, whichever is more reliably determinable.

The IFRIC noted that in the current economic environment the issue is widespread and that divergent interpretations exist, which could have significant effects on financial reports. The IFRIC also concluded that the issue is sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs.

Although this issue is within the scope of the IASB's project on *Financial Instruments with Characteristics of Equity*, the IFRIC concluded that the urgency and importance of the issue warranted the development of an interpretation. Therefore, the IFRIC decided to add the issue to its agenda and to develop a draft interpretation for public comment as soon as possible. This might require a special IFRIC meeting to be held by teleconference before the meeting currently scheduled to take place in September.

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Classification of vesting conditions

The IFRIC received a request to add to its agenda a project to clarify how the examples of non-vesting conditions in paragraph IG24 of IFRS 2 should be applied.

The IFRIC decided that further research and analysis were needed to determine:

- whether the issues identified in the submission fundamentally relate to the interaction of other conditions with the service conditions, and
- whether these types of transactions are widespread and the extent of diversity in practice.

The IFRIC will at a future meeting resume its discussion of whether this project should be added to its agenda.

Rights issues denominated in a foreign currency

The IFRIC received a request to consider the application of the conclusion it reached in 2005 that a call option entitling the holder to receive a fixed number of the entity's shares for a fixed amount of foreign currency should be accounted for as a derivative liability. The IFRIC previously discussed the issue in the context of convertible bonds denominated in a currency other than the entity's functional currency (foreign currency). The question posed in the request was whether the IFRIC's 2005 conclusion applied to a rights issue in which the exercise price was fixed in a foreign currency.

In a conventional rights issue, the entity issues rights pro rata to its existing shareholders that entitle the holder to purchase a fixed number of additional shares at a fixed price. Because the rights entitle the holder to receive a fixed number of shares for a fixed amount of cash, the entity would recognise the rights as equity instruments and they would not be remeasured.

An entity may be required to issue the rights in a currency other than its functional currency, for example, because it is listed on exchanges in more than one jurisdiction. Thus, considered in the functional currency, the amount of cash to be received for the issue of the shares is not fixed. In accordance with the IFRIC's previous conclusion, such a right is considered to be a derivative liability and is therefore remeasured through profit or loss until the right is exercised or expires.

The IFRIC noted that this conclusion results in the entity's profit or loss being affected by changes in its own share price as well as by changes in foreign exchange rates. In addition, in the IFRIC's view, the rights issue described above is not similar to the convertible bonds it discussed in 2005 for the following reasons:

- the rights must be allocated pro rata to existing shareholders; convertible bonds are a separate instrument that may be issued to any investor.
- the rights are priced in the various currencies to treat all shareholders equivalently, no matter which exchange the shares/rights are traded on. In other words, shareholders receive rights with an exercise price denominated in the currency in which their shares trade. Convertible bonds could be denominated in any currency the entity chooses.

For these reasons, the IFRIC concluded that rights issues with the characteristics described above should be classified as equity instruments. However, the IFRIC noted that in accordance with its 2005 conclusion IAS 32 would not permit entities to classify the rights as equity instruments. The IFRIC recognised that the Board has a major project on its agenda relating to the classification of instruments as liabilities or equity that might eliminate this question. However, the IFRIC noted that many entities are raising capital by issuing rights in the current economic environment, so the request has immediate, widespread practical relevance.

Consequently, the IFRIC decided to recommend that the Board amend IAS 32 urgently to permit rights issued pro rata to existing shareholders to be classified as equity instruments if the exercise price is fixed in any currency. The IFRIC directed the staff to develop a proposal for the Board to consider at its meeting in July 2009. The IFRIC also directed the staff to prepare a paper for the next meeting discussing other questions constituents have raised about the application of the 'fixed for fixed' requirement in IAS 32.

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.*

IFRS 3 *Business Combination*—Acquisition-related costs in a business combination

The IFRIC has received requests to clarify the treatment of acquisition-related costs that the acquirer incurred before it applies IFRS 3 (as revised in 2008) that relate to a business combination that is accounted for according to the revised IFRS.

In accordance with the revised IFRS 3, because acquisition-related costs are not part of the exchange transaction between the acquirer and the acquiree (or its former owners), they are not considered part of the business combination. Therefore, except for costs to issue debt or equity securities that are recognised in accordance with IAS 32 and IAS 39, the revised IFRS 3 requires an entity to account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. In contrast, IFRS 3 (as issued in 2004) required the acquisition-related costs to be included in the cost of a business combination.

The IFRIC noted that more than one interpretation of how the requirements of the two IFRSs interact is possible. Accordingly, the IFRIC concluded that an entity should disclose its accounting policy for such costs and the amount recognised in the financial statements. Because this is a transitional issue that will not arise for accounting periods beginning on after 1 July 2009, the IFRIC decided not to add the issue to its agenda.

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IFRS 3 *Business Combinations*—Earlier application of IFRS 3

The IFRIC has received requests to clarify whether IFRS 3 (as revised in 2008) must be applied from the beginning of an annual period if it is adopted early.

The IFRIC noted that paragraph 64 of IFRS 3 (as revised in 2008) requires the revised IFRS to be applied for the whole annual period if it is applied early.

The IFRIC also noted that the question of whether an entity can decide during a reporting period to apply a revised IFRS early is not unique to the revised IFRS 3. The IFRIC observed that this question should be answered in accordance with the general principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, if an entity chooses to apply the revised IFRS 3 early, it must apply it to all business combinations that occurred in the annual period in which the revised IFRS is first applied.

The IFRIC concluded that relevant guidance on the early application of the revised IFRS 3 exists in IFRSs and it did not expect divergence in practice. Therefore, the IFRIC decided not to add the issue to its agenda.

IAS 7 *Statement of Cash Flows*—Determination of cash equivalents

The IFRIC received a request for guidance on whether investments in shares or units of money market funds that are redeemable at any time can be classified as cash equivalents.

The IFRIC noted that paragraph 7 of IAS 7 states that the purpose of holding cash equivalents is to meet short-term cash commitments. In this context, the critical criteria in the definition of cash equivalents set out in paragraph 6 of IAS 7 are the requirements that cash equivalents be 'convertible to known amounts of cash' and 'subject to insignificant risk of changes in value'. The IFRIC noted that the first criterion means that the amount of cash that will be received must be known at the time of the initial investment, ie the units cannot be considered cash equivalents simply because they can be converted to cash at any time at the then market price in an active market. The IFRIC also noted that an entity would have to satisfy itself that any investment was subject to an insignificant risk of changes in value for it to be classified as a cash equivalent.

Given the guidance in IAS 7, the IFRIC did not expect significant diversity in practice because the purpose of holding the instrument and the satisfaction of the criteria should both be clear from its terms and conditions. Accordingly, the IFRIC decided not to add this issue to its agenda.

IAS 27 *Consolidated and Separate Financial Statements* — Transaction costs for non-controlling interest

The IFRIC received a request to clarify the guidance in IAS 27 (as amended in 2008) for accounting for transaction costs incurred in the acquisition or disposal of non-controlling interest (NCI) that does not result in the loss of control of an entity.

The IFRIC noted that the amended IAS 27 requires transactions with NCI to be treated as equity transactions. Paragraphs 106(d)(iii) and 109 of IAS 1 *Presentation of Financial Statements* state that changes in equity resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions are not part of the income and expense generated by the entity's activities during that period.

Accordingly, the IFRIC concluded that relevant guidance exists in IFRSs applicable to such transactions. Because it did not expect significant divergence in practice given the existing guidance, the IFRIC decided not to add the issue to its agenda.

IAS 28 *Investments in Associates*—Potential effect of IFRS 3 *Business Combinatio*ns (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting

The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) had added to its agenda EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. EITF 08-6 addresses several issues resulting from the joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interest that culminated in the issue of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and SFAS 141(R) and SFAS 160.

At its meeting in May 2009, the IFRIC deliberated two of the issues considered in EITF 08-6:

- How the initial carrying amount of an equity method investment should be determined
- How an equity method investee's issue of shares should be accounted for.

The IFRIC noted that IFRSs consistently require assets not measured at fair value through profit or loss to be measured at initial recognition at cost. Generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issuance of the asset such as professional fees for legal services, transfer taxes and other transaction costs. Therefore, the cost of an investment in an associate at initial recognition determined in accordance with paragraph 11 of IAS 28 comprises its purchase price and any directly attributable expenditures necessary to obtain it.

The IFRIC noted that paragraph 19A of IAS 28 provides guidance on the accounting for amounts recognised in other comprehensive income when the investor's ownership interest is reduced, but the entity retains significant influence. The IFRIC noted that there is no specific guidance on the recognition of a gain or loss resulting from a reduction in the investor's ownership interest resulting from the issue of shares by the associate. However, the IFRIC also noted that reclassification of amounts to profit or loss from other comprehensive income is generally required as part of determining the gain or loss on a disposal. Paragraph 19A of IAS 28 applies to all reductions in the investor's ownership interest, no matter the cause.

The IFRIC concluded that the agenda criteria were not met mainly because, given the guidance in IFRSs, it did not expect divergent interpretations in practice. Therefore, the IFRIC decided not to add these issues to its agenda.

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IAS 28 *Investments in Associates*—Venture capital consolidations and partial use of fair value through profit or loss

The IFRIC received a request to provide guidance on an issue arising from IAS 28. The issue relates to situations in which a group has an investment in an associate, one part of which is held by a subsidiary that is an investment-linked insurance fund (or mutual fund, unit trust or venture capital organisation). In its separate financial statements, in accordance with the scope exclusion in IAS 28, the investment-linked insurance fund subsidiary holding part of the investment in the associate has designated it at initial recognition as at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The other part of the investment in the same associate is held by another group entity that accounts for its investment in accordance with IAS 28 using the equity method (or at cost, if certain conditions are met). The issue is whether both measurement bases can be used in the consolidated financial statements.

Paragraph 6 of IAS 28 requires an entity to determine the existence of significant influence considering aggregate holdings, both direct and indirect. Paragraph 24 of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) requires consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. However, the IFRIC noted that some IFRSs allow different treatment of similar items when those items are used differently. For example, IAS 2 *Inventories* states that for inventories with a different nature or use, different cost formulas may be justified.

The IFRIC noted that significant diversity exists in practice on this issue because of the apparently conflicting guidance within IAS 28 and between IAS 28 and other standards. Consequently, the IFRIC decided that it could be best resolved by referring it to the IASB. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 28 *Investments in Associates* —Impairment of investments in associates

The IFRIC received a request to consider whether guidance was needed on how impairment of investments in associates should be determined in the separate financial statements of the investor.

The IFRIC noted that IAS 36 *Impairment of Assets* provides clear guidance that its requirements apply to impairment losses of investments in associates when the associate is accounted for using the equity method. However, in its separate financial statements, the investor may account for its investment in an associate at cost. The IFRIC concluded that it is not clear whether in its separate financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39 *Financial Instruments: Recognition and Measurement*.

In view of the existing guidance in IFRSs, the IFRIC concluded that significant diversity is likely to exist in practice on this issue. The IFRIC decided that it could be best resolved by referring it to the IASB. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 34 *Interim Financial Reporting*—Interim disclosures about fair value

The IFRIC received a request to provide guidance on whether updates to annual fair value disclosures are required in condensed interim financial reports.

The IFRIC noted that in accordance with IAS 34, an interim financial report provides an update on the latest complete set of annual financial statements. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, in accordance with IAS 34 its interim financial report should provide an explanation of, and update to, the information included in the financial statements for the last annual financial period.

The IFRIC concluded that IAS 34 provides sufficient guidance to enable entities to decide whether updates to fair value disclosures are required in interim financial reports and decided not to add the issue to its agenda as it did not expect diversity in practice.

IAS 38 *Intangible Assets*—Compliance costs for REACH

The IFRIC received a request to add an item to its agenda to provide guidance on the treatment of costs incurred to comply with the requirements of the European Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). The Regulation came into force in part on 1 June 2007 and companies have begun to account for the first costs incurred to comply.

At its meetings in March and May 2009 the IFRIC considered detailed background information, an analysis of the issue, current practice and an assessment of the issue against its agenda criteria. The IFRIC noted that IAS 38 includes definitions and recognition criteria for intangible assets that provide guidance to enable entities to account for the costs of complying with the REACH regulation.

The IFRIC concluded that any guidance it could develop beyond that already given would be more in the nature of implementation guidance than an interpretation. For this reason, the IFRIC decided not to add the issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement*—Hedging using more than one derivative as the hedging instrument

The IFRIC received a request for guidance on how to apply the guidance in Q&A F.2.1 in the Guidance on Implementing IAS 39 *Whether a derivative can be designated as a hedged item* when an entity issues fixed interest rate foreign currency debt and then swaps it into floating interest rate local currency debt using a cross currency interest rate swap. The entity also enters into a local currency pay-fixed, receive-variable interest rate swap, which has a shorter duration than that of the cross-currency interest rate swap. The submission asks whether the guidance in Q&A F.2.1 prevents cash flows attributable to a derivative from being designated as the hedged cash flow in a hedge relationship.

The IFRIC noted that paragraph 77 of IAS 39 states that two or more derivatives may be viewed in combination *and jointly designated* as *the hedging instrument*, including when the risk(s) arising from some derivatives offset(s) those arising from others (emphasis added). Consequently, the IFRIC noted that although IAS 39 permits a combination of

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derivatives to be jointly designated as the hedging instrument in a hedging relationship, it does not allow a 'synthetic hedged item' created by combining one derivative with a non-derivative financial instrument to be designated as the hedged item in a hedging relationship with another derivative.

Given the requirements in IAS 39, the IFRIC concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement*—Meaning of 'significant or prolonged'

The IFRIC received a request to provide guidance on the meaning of 'significant or prolonged' (as described in paragraph 61) in recognising impairment on available-for-sale equity instruments in accordance with IAS 39.

The IFRIC agreed with the submission that significant diversity exists in practice on this issue. The IFRIC concluded that some of this diversity is the result of differing ways the requirements of IAS 39 are being implemented, some of which were identified in the submission. The IFRIC noted some applications in particular that are not in accordance with the requirements of IAS 39. For example:

- The standard cannot be read to require the decline in value to be both significant *and* prolonged. Thus, either a significant or a prolonged decline is sufficient to require the recognition of an impairment loss. The IFRIC noted that in finalising the 2003 amendments to IAS 39, the Board deliberately changed the word from 'and' to 'or'.
- Paragraph 67 of IAS 39 requires an entity to recognise an impairment loss on available-for-sale equity instruments if there is objective evidence of impairment. Paragraph 61 of IAS 39 states: 'A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.' [emphasis added] Consequently, the IFRIC concluded that when such a decline exists, recognition of an impairment loss is required.
- The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an entity can conclude the investment is not impaired.
- The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing. Consequently, the IFRIC concluded that an anticipated market recovery is not relevant to the assessment of 'significant or prolonged'.
- Paragraph AG83 and Q&A E.4.9 in the Guidance on Implementing IAS 39 *Impairment of non-monetary available-for-sale financial asset* both discuss the recognition of financial instruments denominated in foreign currencies. The IFRIC concluded that it is inappropriate to assess 'significant or prolonged' in the foreign currency in which the equity investment is denominated. That assessment must be made in the functional currency of the entity holding the instrument because that is how any impairment loss is determined.

The IFRIC noted that the applications that are not in accordance with the requirements of IAS 39 it discussed were examples only and were unlikely to be an exhaustive list of all the inconsistencies with the standard that might exist in practice.

The IFRIC also noted that the determination of what constitutes a significant or prolonged decline is a matter of fact that requires the application of judgement. The IFRIC noted that this is true even though an entity may develop internal guidance to assist it in applying that judgement consistently. The IFRIC further noted that an entity would provide disclosure about the judgements it made in determining the existence of objective evidence and the amounts of impairment in accordance with paragraphs 122 and 123 of IAS 1 *Presentation of Financial Statements* and paragraph 20 of IFRS 7 *Financial Instruments: Disclosures*.

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 soon. Therefore, the IFRIC decided not to add this issue to its agenda.

IFRIC 12 *Service Concession Arrangements*—Scope of IFRIC 12

The IFRIC received requests for guidance on the application of IFRIC 12. One request related to the requirement that the grantor control or regulate the price the operator can charge to users of the service provided by the infrastructure. The other requested guidance on the accounting for aspects of the arrangement other than the infrastructure.

The IFRIC noted that guidance in paragraphs AG2 and AG3 of IFRIC 12 on the requirement that the grantor controls or regulates the price of the service states that the grantor does not need to have complete control of the price. Rather, the IFRIC noted that any reviews or approvals by the grantor required by the agreement would generally be sufficient to meet this requirement, and it would be inappropriate to assume that they are perfunctory or 'rubber stamps' that can be disregarded.

The IFRIC also noted that in redeliberating the Interpretation it had decided to focus on the guidance on accounting for the infrastructure but had provided references to other IFRSs that apply to arrangements not within its scope. IFRIC 12 also refers to other IFRSs for accounting for aspects of the arrangement other than the infrastructure, such as repair and maintenance obligations and revenue recognition.

Given the guidance in IFRSs, the IFRIC concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. The IFRIC therefore decided not to add the issues to its agenda.

IFRIC 18 *Transfers of Assets from Customers*—Applicability to the customer

The IFRIC received a request to provide guidance on how the customer should account for a transfer of assets that is in the scope of IFRIC 18 for the recipient. The IFRIC noted that IFRIC 18 addresses only the accounting by the recipient of the transferred assets.

The IFRIC also noted that the accounting by customers transferring assets should be consistent with the principles in IFRIC 18 that, in a normal trading transaction, transfers of

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assets include exchanges of other goods, services or both. The IFRIC noted that other IFRSs provide relevant guidance for accounting for the goods or services received or given up in the exchange transaction.

Therefore, the IFRIC concluded that the agenda criteria were not met mainly because IFRSs already provide relevant guidance and it did not expect divergent interpretations in practice. Therefore, the IFRIC decided not to add this issue to its agenda.

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 September 2009. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to communicate those concerns by 17 August 2009 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 3 *Business Combinations*—Measurement of NCI

The IFRIC received requests to clarify whether an entity should apply the measurement choice in paragraph 19 of IFRS 3 (as revised in 2008) to all components of non-controlling interest (NCI). Paragraph 19 states that, for each business combination, the acquirer shall measure any NCI in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In addition to minority interests as defined in IFRS 3 (issued in 2004), the definition of NCI includes, for example, options or warrants over an entity's own shares that are classified as equity and the equity component of a convertible instrument. Some believe that if an entity chooses to measure NCI as a proportionate share of the acquiree's identifiable net assets, it should apply this measurement to all components of the acquiree's equity. The consequence would be that instruments other than those equivalent to minority interest would be measured at nil on acquisition.

The IFRIC concluded that the measurement choice should apply only to instruments currently entitled to a proportionate share of the acquiree's net assets. However, because IFRSs do not provide sufficient guidance to resolve this issue an amendment to revised IFRS 3 is required. Therefore, the IFRIC [decided] not to add the issue to its agenda but to recommend that the Board amend IFRS 3 to address the issues identified as a part of the annual improvements project.

IFRS 3 *Business Combinations*—Unreplaced and voluntarily replaced share-based payment awards

The IFRIC received requests to clarify the measurement of unreplaced and voluntarily replaced share-based payment awards of an acquiree in a business combination. IFRS 3 (as revised in 2008) contains requirements for outstanding acquiree share-based payment awards that the acquirer is obliged to replace or that expire as a consequence of the business combination. However, IFRSs do not provide requirements for other acquiree share-based payment awards. As a consequence, divergent interpretations have developed in practice of how those awards should be accounted for.

The IFRIC concluded that when an acquirer does not replace unexpired share-based payment awards of the acquiree or voluntarily issues share-based payment awards to replace such awards, at least some portion of the amount recognised for those awards should be regarded as part of the consideration transferred in the business combination. However, because IFRSs do not provide sufficient guidance to resolve this issue an amendment to IFRS 3 (as revised in 2008) is required. Therefore, the IFRIC [decided] not to add the issue to its agenda. However, the IFRIC recommended that the Board amend revised IFRS 3 to address the issues identified as a part of the annual improvements project.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Write-down of a disposal group

The IFRIC received a request for guidance on the write-down of a disposal group to the lower of its fair value less costs to sell and its carrying amount when the write-down exceeds the carrying amount of non-current assets.

The IFRIC noted paragraph 22 of IFRS 5 requires the impairment loss recognised for a disposal group to be allocated to reduce the carrying amount of the non-current assets of the group that are within the measurement requirements of IFRS 5. This can result in a conflict between IFRS 5's requirement to recognise the disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated. Consequently, the IFRIC noted that divergence could arise in practice. The IFRIC also noted that the issue could be widespread in the current economic environment.

The IFRIC concluded that the issue relates to the basic requirements of IFRS 5 and therefore could not be addressed by an interpretation. For this reason, the IFRIC [decided] not to add the issue to its agenda. However, the IFRIC recommended that the Board amend IFRS 5 as a matter of priority to address the issue.

IAS 23 *Borrowing Costs*—Meaning of 'general borrowings'

The IFRIC received a request for guidance on what borrowings comprise 'general borrowings' for purposes of capitalising borrowing costs in accordance with IAS 23. IAS 23 paragraph 14 states that 'To the extent that *an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset*, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of *the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.*' (emphasis added) The request asked for guidance on the treatment of general borrowings used to purchase a specific asset other than a qualifying asset as defined in the standard.

The IFRIC noted that because paragraph 14 refers only to qualifying assets, some conclude that borrowings related to specific assets other than qualifying assets cannot be excluded from determining the capitalisation rate for general borrowings. Others note the general principle in paragraph 10 that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying

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asset are borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. The IFRIC noted that IAS 23 paragraph 11 states 'the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.'

The IFRIC noted that the standard itself acknowledges that judgement will be required in its application. In addition, the IFRIC concluded that any guidance it could provide would be in the nature of application guidance rather than an interpretation. The IFRIC also noted that the Board will consider whether to add this issue to the annual improvements project. The IFRIC therefore [decided] not to add the issue to its agenda.

IFRIC work in progress

The IFRIC reviewed a summary of outstanding issues. The IFRIC noted that with the exception of two issues, one of which was received after the agenda papers were prepared, all requests received were either discussed at this meeting or are being considered by the Board.

From July 2006, IFRIC meetings have been audiocast live via the Internet. Audio recordings are available to listen to via the Website and can be accessed via the IFRIC Projects included within the Current Projects area. Please visit the IASB website at www.iasb.org for more information.

Future IFRIC meetings

The IFRIC's meetings are expected to take place in London, UK, as follows:

- 3 and 4 September
- 5 and 6 November

In addition to the meetings listed above, the IFRIC may hold meetings for a preliminary discussion of some staff papers. Attendance by IFRIC members at these meetings is voluntary and no decisions on technical issues will be made. If the IFRIC holds a preliminary meeting, it will normally take place on the Wednesday afternoon before the IFRIC meeting.

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB website at www.iasb.org before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website at http://www.iasb.org/About+Us/About+IFRIC/Propose+Agenda+Item.htm

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