# IFRIC Update

From the IFRS Interpretations Committee

July 2010

## Welcome to the 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 IFRS Interpretations Committee meetings.*

*Decisions become final only after the Committee has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.*

The Interpretations Committee met in London on **8 and 9 July**, when it discussed:

- Current agenda:
  - Accounting for production stripping costs
  - Vesting and non-vesting conditions
  - Put options written over non-controlling interests
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress


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### Future IFRS Interpretations Committee meetings

The next meetings in 2010 are:
**2 and 3 September**
**4 and 5 November**

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## Current agenda:

The Interpretations Committee discussed the following issues which are on its current agenda.

**Accounting for production stripping costs**

In November 2009, the Committee decided to add this issue to its agenda. The Committee discussed the scope and accounting requirements at the January and March 2010 meetings and reviewed a draft Interpretation in May 2010.

At the July 2010 meeting the staff presented a revised draft Interpretation and a paper analysing various transition considerations for entities. The Committee tentatively agreed that:

- a 'stripping campaign' should be defined as a systematic process undertaken to gain access to a specific section of the ore base, that is a more aggressive process than routine waste clearing activities. The stripping campaign is planned in advance and forms part of the mine plan. It will have a defined start date and it will end when the entity has completed the waste removal activity necessary to access the ore to which the campaign is associated;
- the Application Guidance should include a diagram illustrating the concepts of routine stripping and stripping undertaken as part of a stripping campaign; and
- an entity should apply the draft Interpretation prospectively to costs incurred from the effective date.

The Committee also tentatively agreed that the scope of the draft Interpretation should continue to include all production stripping costs, and should not be limited to production stripping costs incurred under a stripping campaign only.

The Committee directed the staff to ask the Board whether it would object to the publication of the draft Interpretation, subject to drafting changes, for public comment, with a 90 day comment period.

**Vesting and non-vesting conditions**

At the January 2010 meeting, the Committee 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 Committee was asked how to distinguish between a service condition, a performance condition and a non-vesting condition. Additionally, the Committee was asked for clarification on the interaction of multiple conditions.

At the July 2010 meeting the Committee discussed an analysis of:

- the attributes of a performance condition;
- the current and proposed accounting for nine examples of specific share-based payment transactions; and
- drafting suggestions for consideration by the staff.

The Committee tentatively decided that:

- a performance condition should be defined by reference to the operation or activities of the entity but without reference to the proposed attributes;
- there should be no change to the accounting for SAYE plans; and
- IPO and a change of control conditions should be deemed to constitute a performance condition.

The Committee requested the staff to:

- refine the proposed definitions of a performance condition, non-vesting condition and contingent feature;
- consider whether to include specific examples in Guidance on implementing IFRS 2, and
- perform further research on the specific example when a performance target is measured over a period exceeding the service period.

**Put options written over non-controlling interests**

At the May 2010 meeting, the Committee decided to add to its agenda a request for guidance on how an entity should account for changes in the carrying amount of a financial liability for a put option, written over shares held by a non-controlling interest shareholder ('NCI put'), in the consolidated financial statements of a parent entity.

The issue arises because of a potential conflict between the financial instruments guidance in IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* and the guidance in IAS 27 *Consolidated and Separate Financial Statements*.

At its July 2010 meeting the Committee discussed which components of the accounting for NCI puts should be included within the scope of the draft Interpretation.

The Committee tentatively decided to include guidance for the:

- initial recognition of NCI puts proposing that a financial liability should be recognised and initially measured at fair value (the present value of the redemption amount) of the NCI put; and
- subsequent measurement of NCI puts, proposing that changes in the carrying amount of a financial liability for a NCI put should be recognised in profit or loss in accordance with the guidance in IAS 39.

The Committee requested that the staff develop papers for discussion at the next meeting that provide additional analysis of the approach to initial recognition of the NCI put. This analysis should include:

- consideration of the alternatives for the initial recognition of an NCI put, including whether the financial liability recognised for the NCI put represents a reclassification of NCI and whether amendments should be made to the current requirements in IFRSs.
- the implications of the NCI put being written as part of a business combination; and
- the interaction between changes in the carrying amount of the financial liability and changes in the amount, if any, that is recognised for NCI. This should include consideration of how to resolve any perceived 'double counting' within equity or profit or loss that is associated with the subsequent accounting for a NCI put.

The Committee also expressed support for the staff to continue analysing the:

- subsequent measurement of dividends relating to shares subject to the NCI put;
- expiration or settlement of NCI puts;
- definition of NCI puts for purposes of identifying instruments that should be within the scope of the draft Interpretation; and
- proposed transition provisions for NCI puts written before the effective date of the proposed Interpretation.

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## IFRS Interpretations Committee agenda decisions

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

**IAS 1 *Financial Statement Presentation* — Going concern disclosure**

The Committee received a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern.

How an entity applies the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgement. The Committee noted that paragraph 25 requires that an entity shall disclose 'material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern'. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern.

The Committee noted that IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and that it does not expect diversity in practice. Therefore, the Committee decided not to add the issue to its agenda.

**IAS 39 *Financial Instruments: Recognition and Measurement* — Impairment of financial assets reclassified from available-for-sale to loans and receivables**

The Committee received a request for guidance on how an entity should account for the impairment of financial assets with a fixed maturity after they have been reclassified from the available-for-sale ('AFS') category to loans and receivables.

The Committee noted that paragraph 50F and paragraph 54 of IAS 39 require that the fair value of a financial asset on the date of reclassification becomes its new cost or amortised cost. A new effective rate of interest is then calculated and applied to the financial asset. This is the rate that discounts the estimated future cash flows to the new carrying amount of the financial asset. The Committee also noted that, when an impairment loss is recognised, applying the requirements of paragraph 54 of IAS 39 would result in all gains or losses that have been recognised in other comprehensive income being reclassified from equity to profit or loss.

The Committee noted that IAS 39 provides sufficient guidance on financial assets that are reclassified from AFS to loans and receivables and that it does not expect diversity in practice. Consequently, the Committee decided not to add this issue to its agenda.

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## IFRS Interpretations Committee tentative agenda decisions

*The Committee reviewed the following matters and tentatively decided that they should not be added to the Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Committee's agenda, will be reconsidered at the Committee meeting in September 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 15 August 2010 by email to:* ***ifric@ifrs.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* — Repeat application of IFRS 1**

The Committee received a request identifying an entity that had previously reported in accordance with IFRSs to meet foreign listing requirements, and applied IFRS 1. However, the entity then delisted and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction change from national GAAP to IFRSs, and the entity is again required to present its financial statements in accordance with IFRSs. The request asks the Committee to clarify how the entity should transition back to reporting in accordance with IFRSs, and specifically whether it can apply IFRS 1 for a second time.

The Committee observed that the scope of IFRS 1 requires an entity to apply the standard in its first IFRS financial statements. Paragraph 3 of IFRS 1 provides examples of when an entity's financial statements are considered its first IFRS financial statements. These examples are based upon assessing whether the entity's most recent previous financial statements were presented in accordance with IFRSs.

The Committee noted that an entity is required to apply IFRS 1 for a second time in the circumstances described. However, the Committee observed that the scope of IFRS 1 should be made clearer.

Consequently, the Committee [decided] not to add this issue to its agenda. However, the Committee [decided] to recommend that the Board should clarify the guidance relating to the repeat application of IFRS 1 as part of *Annual Improvements*.

**IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Repayments of investments**

The Committee received a request for guidance on the reclassification of the foreign currency translation reserve (FCTR) when a repayment of a foreign investment occurs. The request specifically sought guidance on whether a repayment of an investment is considered to be an absolute reduction or a proportionate reduction.

The Committee noted that paragraph 48D of IAS 21 requires that an entity treats 'any reduction in an entity's ownership interest in a foreign operation' as a partial disposal, apart from those reductions in paragraph 48A that are accounted for as disposals. How an entity applies the requirements in paragraph 48D is largely dependent on whether it interprets 'any reduction in an entity's ownership interest in a foreign operation' to mean an absolute reduction or a proportionate reduction.

The Committee considers that different interpretations could lead to diversity in practice in the application of IAS 21 on the reclassification of the FCTR when repayment of investment in a foreign operation occurs. However, the Committee [decided] neither to add this issue to its agenda nor to recommend the Board to address this issue through *Annual Improvements* because it did not think it would be able to reach a consensus on the issue on a timely basis.

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## Issues considered for *Annual Improvements*

*The Committee assists the IASB in* Annual Improvements *by reviewing proposed improvements to IFRSs and making recommendations to the Board. Specifically, the Committee 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 Committee 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.*

**Issues recommended for inclusion in the 2009— 2011 cycle for *Annual Improvements***

At its meeting in July 2010, the Committee deliberated the following issue and recommended the Board add it to *Annual Improvements*. The Committee's recommendation will be submitted to the Board for discussion at a future Board meeting. If this issue is confirmed by the Board it will be included in the exposure draft of proposed *Improvements to IFRSs* expected to be published in October 2010. The issue discussed was:

**IFRS 3 *Business Combinations* — Regrouping and consistency of contingent consideration guidance**

At its meeting in February 2010, having reviewed an analysis of comment letters received on the *Improvements to IFRSs* exposure draft published in August 2009, the Board asked the Committee to provide a recommendation on how to present the guidance on contingent consideration associated with business combinations within one standard to resolve potential divergence in the application of IFRSs.

In July 2010, the Committee discussed the current guidance relating to contingent consideration and noted the existence of inconsistencies relating to the contingent consideration guidance within IFRSs.

Consequently the Committee recommended that the Board remove inconsistencies in classification, measurement and disclosures relating to contingent consideration associated with business combinations by deleting references to other IFRSs in paragraphs 40 and 58 of IFRS 3 as part of *Annual Improvements*. The Committee also recommended that the Board make consequential amendments to IAS 39 *Financial Instruments: Recognition and Measurement*, to IFRS 7 *Financial Instruments: Disclosures* and to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

**Issues recommended to be addressed separately by the Board**

The Committee deliberated four additional issues for consideration within *Annual Improvements*. The Committee recommended that the Board address three of these issues as separate amendments, primarily to enable guidance to be issued on a timely basis. The issues deliberated by the Committee are as follows:

**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 to correspond to the effective dates of the revision to IAS 39 *Financial Instruments: Recognition and Measurement* in 2003.
The Committee agreed to recommend the Board amend IFRS 1 in accordance with the proposal in the request. However, in order to provide timely relief to jurisdictions transitioning to IFRSs, the Committee recommended that the Board address the issue in a separate project, rather than as part of *Annual Improvements*.

**IFRS 1 *First-time Adoption of International Financial Reporting Standards* — Fixed date in exemption D20**

A request was received to replace the fixed dates of 25 October 2002 and 1 January 2004 in paragraph D20 of IFRS 1 with 'the date of transition to IFRSs'. Paragraph D20 is an exemption relating to the fair value measurement of financial assets or financial liabilities at initial recognition ('day 1 gains and losses') in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Similarly to the proposed amendment discussed relating to paragraph B2 of IFRS 1 (the derecognition exception), the Committee agreed to recommend the Board amend IFRS 1 in accordance with the proposal in the request. The Committee also recommended that, to provide timely relief to jurisdictions transitioning to IFRSs, the Board address this issue, together with the derecognition exception, in a separate project, rather than as part of *Annual Improvements*.

**IAS 28 *Investments in Associates* — Purchases in stages — fair value as deemed cost**

The Committee received a request to address the accounting for an investment in an associate when the investment was purchased in stages and classified as available for sale (AFS) until it became an associate.

In July 2010, the Committee discussed what amount the investment in an associate should be initially measured at, and the accounting for any accumulated changes in fair value relating to the investment recognised in other comprehensive income (OCI), at the date significant influence is obtained and the investment is no longer categorised as AFS.

The Committee acknowledges that there is diversity in practice in accounting for associates purchased in stages. The Committee did not think it would be able to reach a consensus on a timely basis in order to address this issue through *Annual Improvements*. However, due to the acknowledged diversity in practice, the Committee recommended that the issue be referred to the Board for consideration.

**IAS 29 *Financial Reporting in Hyperinflationary Economies* — Reporting in accordance with IFRSs after a period of chronic hyperinflation**

The Committee received a request for clarification on how an entity should resume presenting financial statements in accordance with IFRSs after a period when it was unable to comply with IAS 29. The request identifies an entity whose functional currency is the currency of a hyperinflationary economy. The entity is unable, for a period of time, to comply with IAS 29 because the general price index relating to the entity's functional currency is unavailable and the functional currency lacks exchangeability. The request identifies this situation as "chronic hyperinflation" and asks how such an entity should resume preparing financial statements under IFRSs when the entity's functional currency subsequently ceases to be the currency of a chronic hyperinflationary economy.

The Committee noted that current IFRSs do not provide guidance relating to the issue and the Committee also noted that it is not possible to prepare financial statements in accordance with IFRSs during a period of chronic hyperinflation.
The Committee reached a tentative decision that IAS 29 should be amended to provide guidance on how an entity shall prepare and present an opening statement of financial position at the date when the entity's functional currency ceases to be the currency of a chronic hyperinflationary economy.

This guidance, which differs from the two approaches proposed in the request, would require the entity at that date to apply a new accounting basis and recognise and measure assets and liabilities using the guidance in IFRS 3 *Business Combinations* to reflect the new accounting basis, subject to certain exceptions, in particular with respect to the recognition of goodwill and the recognition of intangible assets that were not previously recognised. The entity would not be required to present comparative information in accordance with IFRSs, for periods before that date.

The Committee also reached a tentative decision to amend IAS 27 *Consolidated and Separate Financial Statements* to provide guidance for a parent entity which has a subsidiary that has a functional currency that is the currency of a chronic hyperinflationary economy.
The Committee tentatively decided that such a parent entity should recognise a new interest in its subsidiary in accordance with the new accounting basis at the date on which the subsidiary's functional currency ceased to be the currency of a chronic hyperinflationary economy. Any interest in the

subsidiary that the parent had continued to recognise up to that date should be derecognised and any difference should be recognised in profit or loss.

The Committee recommended that the Board make a separate amendment to IAS 29, reflecting the comments made by the Committee, to address this issue to enable guidance to be issued on a timely basis. The Committee also recommended that the Board make consequential amendments that may be needed to other IFRSs (including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 27).

**Issue for which no actions are recommended with respect to *Annual Improvements***

**IAS 40 *Investment Property* — Change from fair value model to cost model**

At its July 2010 meeting, the Committee discussed the recognition and measurement of transfers from investment property. This issue was previously included in the *Improvements to IFRSs* exposure draft published in August 2009. Having reviewed comments during the comment letters analysis phase in March 2010 the Committee had recommended that the Board did not finalise the amendment. However, at its meeting in March 2010, the Board directed the Committee to reconsider this issue as part of the next *Annual Improvements*. At its meeting in July 2010, the Committee discussed a new analysis of the issue and tentatively decided to recommend that:

- property assets continue to be recognised in the statement of financial position as different asset categories based on their use and manner of employment, in accordance with existing asset definitions;
- the exemption in paragraph 5.5 (d) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, (relating to the measurement of investment property held at fair value), should be retained because of the forthcoming standard on *Fair Value Measurement*; and
- the proposal in the exposure draft *Improvements to IFRSs*, published in August 2009, to display investment property held for sale as a separate asset category in the statement of financial position be rejected.

The Committee requested that the staff prepare a board paper to summarise why the Committee have confirmed their earlier recommendation that no changes should be made in relation to IAS 40 as part of *Annual Improvements*.

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## IFRS Interpretations Committee work in progress

**IAS 12 *Income Taxes* — Recognising deferred tax assets for unrealised losses on available-for-sale debt securities**

The Committee received a request for guidance relating to how an entity determines, in accordance with IAS 12, whether to recognise a deferred tax asset relating to unrealised losses on available-for-sale debt securities (‘AFS debt securities’). The request asks if an entity’s ability and intent to hold the AFS debt securities until the unrealised losses reverse is akin to a tax planning opportunity. If so, it raises the question of whether recognition of a deferred tax asset relating to the unrealised losses can be assessed separately from the recognition of other deferred tax assets.

The Committee discussed responses received on the previous tentative agenda decision published in the May 2010 IFRIC Update. The Committee continued to support the intent of the views expressed in the tentative agenda decisions in relation to the specific fact pattern presented to the Committee. However the Committee requested that the staff present revised wording for the agenda decision at the next meeting, clarifying the situation addressed and the decisions made by the Committee.

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## Committee outstanding issues update

The following issues are carried forward to the meeting in September 2010:

- IAS 19 *Employee Benefits* — Accounting for statutory employee profit sharing arrangements;
- IAS 36 *Impairment of Assets* — Accounting for goodwill impairment testing when non-controlling interests are recognised; and
- All IFRSs — Encouraged versus required disclosures.

The Committee also reviewed a summary of outstanding issues.

With the exception of these issues, all requests received and considered by the staff were discussed at this meeting. The outstanding issues are expected to be discussed at a future Committee meeting.

## Future IFRS Interpretations Committee meetings: 2010 — 2011

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

- **8 and 9 July**
- **2 and 3 September**
- **4 and 5 November**
- **6 and 7 January 2011**
- **10 and 11 March 2011**
- **5 and 6 May 2011**
- **7 and 8 July 2011**
- **8 and 9 September 2011**
- **3 and 4 November 2011**

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB website at www.ifrs.org before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website at:
**http://www.ifrs.org/How+we+develop+Interpretations/Propose+an+agenda+item.htm**.

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