



**International
Accounting Standards
Board**

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This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: November 2007, London

Project: IFRIC Issues with the IFRIC (Agenda paper 8)

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|-------------------------|-------------------|----------------------|---|---|
| IAS 18-3 | Real Estate Sales | IAS 18 | <p>The issue is when revenue should be recognised for real estate sales in which agreements for sale are reached before construction is complete.</p> <p>Should the sale agreements be treated as construction contracts (with revenue being recognised on a percentage of completion basis) or as agreements for the sale of goods (with revenue recognised in accordance with IAS 18)? If the latter, how should IAS 18 be applied?</p> | Draft Interpretation approved by IFRIC at May 2007 meeting. The Board did not object to publication. D21 published July 2007. |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|---|---------------|---|--|
| IAS 18-6 | Guidance on identifying agency arrangements | IAS 18 | The issue is how paragraph 8 of IAS 18 should be applied to situations in which an entity employs a subcontractor to satisfy its obligations to a customer under a sales contract. | <p>At its July 2006 meeting, the IFRIC agreed to take the issue onto the agenda, but with a lower priority than other current projects.</p> <p>This issue was then discussed by the IFRIC at its May and July 2007 meetings. At the July 2007 meeting, the IFRIC tentatively decided to remove this item from its agenda and asked the staff to develop guidance that might be recommended to the Board for inclusion in the Appendix to IAS 18.</p> <p>A paper was presented at the September 2007 IFRIC meeting and is being considered by the Board at its October meeting as part of the Annual Improvements project..</p> |
| IAS 18-7 | Customer Contributions | IAS 18 | <p>An entity may enter into an enduring contract to provide services to a customer whereby the customer provides infrastructure assets or contributions to infrastructure assets to the entity at the beginning of the contract.</p> <p>The IFRIC has been asked to provide Interpretive guidance as to how these customer contributions should be accounted for.</p> | <p>The IFRIC decided to add this issue to its agenda in May 2007.</p> <p>The IFRIC will continue its discussions on this issue at the November 2007 meeting.</p> |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|---|---------------|---|--|
| IAS 19-8 | Allocation of the effects of salary increases | IAS 19 | The issue is whether expected future increases in salary should be considered in determining whether a defined benefit plan formula attributes a materially higher level of benefits to service in later years. | <p>An example in D9 implied that expected future increases in salary should be included in the assessment.</p> <p>Respondents to D9 pointed out that the issue also applied to plans outside the scope of D9. The Board is now considering the plans in the scope of D9 in phase one of its post-employment benefits project. But the issue remains for plans not covered by the Board's work.</p> <p>At the July 2007 IFRIC meeting, the IFRIC tentatively agreed to remove the issue from its agenda. At the September 2007 meeting, the IFRIC confirmed its tentative agenda decision and removed the item from its agenda.</p> |
| IAS 19-10 | Treatment of employee contributions | IAS 19 | The question concerns the treatment of employee contributions in the measurement of the defined benefit obligation and/or the current service cost. | At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda. The IFRIC will consider comments on its tentative decision at the November meeting. |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|--|---------------|---|---|
| IAS 19-11 | Treatment of death-in-service benefits and other risk benefits | IAS 19 | <p>This issue is primarily concerned with the way in which disability and death in service lump sum and pension benefits should be taken into account in the valuation of the defined benefit obligation and service cost for a plan.</p> <p>IAS19 requires the use of the Projected Unit Credit method to value the defined benefit obligation and service cost. However, there are different interpretations of the Projected Unit Credit method in respect of benefits that are not related to service – e.g. death in service and disability pension and lump sum benefits. The approach commonly used for plans in the UK is different from that used in the US (where the attribution method is stipulated under FAS 87) and parts of Europe. The differences depend on whether the benefits are insured and in the way in which the insured and uninsured portions are attributed to periods of service.</p> | At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda. The IFRIC will consider comments on its tentative decision at the November meeting. |
| IAS 19-13 | Changes to a plan caused by government | IAS 19 | The question concerns the treatment of a change to a pension plan because of a change made by the government. The issue is whether the change should be accounted for as an actuarial gain or loss or as a past service cost. | At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda. The IFRIC will consider comments on its tentative decision at the November IFRIC meeting. |
| IAS 21-1 | The hedge of a net investment in a foreign operation | IAS 21 | <p>The principal issues are:</p> <ol style="list-style-type: none"> 1) between which currencies the risk in a net investment arises; and 2) In which entity within a group the instrument hedging a net investment may be held. | Draft Interpretation approved by IFRIC at May 2007 meeting, subject to drafting changes. The Board did not object to publication. D22 issued July 2007. |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|---|---------------|--|--|
| IAS 27-5 | Accounting for non-cash distributions in the financial statements of an entity that makes the distributions | IAS 27 | The issue is how an entity should account for non-cash distributions to its equity holders acting in their capacity as equity holders in its financial statements. | <p>At the May 2007 IFRIC meeting, the IFRIC agreed to take the issue on to its agenda.</p> <p>At the July 2007 IFRIC meeting, the IFRIC agreed with the scope of the project. The IFRIC agreed to define non-cash distributions as unconditional non-reciprocal transfers of assets by an entity to its equity holders.</p> <p>At the September 2007 IFRIC meeting, the IFRIC discussed how an entity should measure its non-cash distributions by focusing on how it should measure the corresponding dividends payable in accordance with IFRSs.</p> <p>At the November 2007 IFRIC meeting the IFRIC will consider a Draft Interpretation.</p> |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|--|---------------|---|--|
| IAS 39-2 | Derecognition | IAS 39 | <p>The IFRIC has been asked to consider the following two issues:</p> <ol style="list-style-type: none"> 1) How the derecognition tests should be applied to groups of financial assets. In particular, when a group of financial assets should be considered similar; and 2) When the pass through tests in IAS 39 should be applied to a transfer of a financial asset. | <p>At its July-06 meeting, the IFRIC agreed to refer these issues to the Board for clarification.</p> <p>At the Sept-06 Board meeting, the Board discussed these issues.</p> <p>The Board's observations were communicated to the IFRIC at its Nov-06 meeting. The IFRIC agreed not to take the issue on to the agenda. Tentative decision was published in November-2006 IFRIC Update.</p> <p>At its January 2007 meeting, the IFRIC decided to add a limited scope project on derecognition to its agenda. The staff will prepare papers for discussion at a future IFRIC meeting.</p> |
| IAS 39-5 | Hedging future cash flows with purchased options | IAS 39 | <p>The IFRIC received requests in respect of how effectiveness should be assessed in a situation in which an option in its entirety is designated as a hedging instrument to hedge variability in future cash flows in a cash flow hedge. The requests suggested an approach to assessing and measuring hedge effectiveness – that is, an entity can compare all changes in the fair value of the purchase option with changes in the fair value of a hypothetical written option that has the same maturity data and notional amounts as the hedged item. The requests asked whether such an approach is allowed under IAS 39.</p> | <p>At the May 2007 IFRIC meeting, the IFRIC made a tentative decision not to add this item to its agenda.</p> <p>At the July 2007 IFRIC meeting, the IFRIC reviewed its tentative agenda decision. The IFRIC revised the tentative agenda decision to change the reason the IFRIC decided not to take the issue on to its agenda.</p> <p>At the September 2007 IFRIC meeting, the IFRIC confirmed its revised tentative agenda decision.</p> |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|-------------------------------|---------------|---|--|
| IAS 39-15 | Scope of IAS 39 paragraph 11A | IAS 39 | The IFRIC has been asked whether IAS 39 paragraph 11A can be applied to all contractual arrangements that contain one or more embedded derivatives, including those with host contracts that are outside the scope of IAS 39. | <p>At the May 2007 IFRIC meeting, the IFRIC made a tentative decision not to add this item to its agenda.</p> <p>The IFRIC received a few comment letters on the issue. The IFRIC agreed that the staff needed additional time to analyse the issue further. Therefore, at the July 2007 IFRIC meeting, the IFRIC deferred to a future meeting its decision on whether to confirm the tentative agenda decision. The staff provided an update on research at the September IFRIC meeting. The IFRIC agreed that the issue should be referred to the Board for clarification. At the November IFRIC meeting the IFRIC will consider the approach to recommend to the Board.</p> |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|------------------------|---------------|--|--|
| IAS 39-16 | AG33(d)(iii) of IAS 39 | IAS 39 | The IFRIC has been asked to give guidance on how to apply AG33(d)(iii) of IAS 39, particularly how to determine an 'economic environment'. | <p>At the May 2007 IFRIC meeting, the IFRIC made a tentative decision not to add this item to its agenda.</p> <p>The IFRIC received a few comment letters on the issue. The IFRIC agreed that the staff needed additional time to analyse the issue further. Therefore, at the July 2007 IFRIC meeting, the IFRIC deferred to a future meeting its decision on whether to confirm the tentative agenda decision. The staff provided an update on research at the September IFRIC meeting. The IFRIC agreed that the issue should be referred to the Board for clarification. At the November IFRIC meeting the IFRIC will consider the approach to recommend to the Board.</p> |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|--|---------------|--|--|
| IFRS 2-10 | Cash-settled share-based transactions granted by a shareholder or another entity in the same group | IFRS 2 | <p>The IFRIC has been asked to provide guidance on how to account for the following cash-settled share-based arrangements in the financial statements of a subsidiary that receives services from its employees:</p> <ul style="list-style-type: none"> • Arrangement 1 – The employees of the subsidiary will be reimbursed by cash payments that are based on the price of the equity instruments of the subsidiary. • Arrangement 2 – The employees of the subsidiary will be reimbursed by cash payments that are based on the price of the equity instruments of the parent of the subsidiary. <p>Under both arrangements, the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the cash payments needed.</p> | At the July 2007 IFRIC meeting, the IFRIC agreed that both arrangements should be within the scope of IFRS 2. At the September 2007 IFRIC meeting the IFRIC considered a text of a tentative agenda decision as well as a draft of potential amendments to IFRS 2 and consequential amendments to IFRIC 11. The Board will consider the draft amendments to IFRS 2 and IFRIC 11 at its October 2007 meeting. |
| IFRS 5-2 | Disclosures | IFRS 5 | The IFRIC received a request to clarify whether the disclosure requirements of IFRS 7 <i>Financial Instruments: Disclosures</i> and IAS 19 <i>Employee Benefits</i> would apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5. | The IFRIC discussed the issue at its May and July 2007 meetings. At the July meeting, the IFRIC tentatively decided not to add this item to its agenda. At the September 2007 IFRIC meeting, the IFRIC confirmed its tentative agenda decision but recommended that the Board clarify the standard in its Annual Improvements project. The Board will consider the draft improvement at its meeting in October 2007. |

IFRIC ISSUES WITH THE IFRIC

Potential IAS 19 issues (not yet discussed by the IFRIC)

The following issues will be dealt with when staff resources are allowed. Relative priorities will be assessed.

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|--|---------------|--|---|
| IAS 19-9 | Issues relating to the non-consolidation model and definition of plan assets | IAS 19 | <p>IAS 19 does not require the consolidation of employee benefit plans. It brings qualifying plan assets onto the entity's balance sheet by netting the plan assets at fair value against the sponsor's obligations. Further, SIC 12, which concerns the consolidation of special purpose entities, excludes post-employment benefit plans from its scope.</p> <p>The issues that arise as a result of this include how to treat assets that do not fall within the definition of plan assets and some perceived anomalies relating to the treatment of assets in the individual financial statements of group entities and their treatment in the consolidated financial statements of the group.</p> | The IFRIC will consider the staff recommendation on a tentative agenda decision at its November 2007 meeting. |

IFRIC ISSUES WITH THE IFRIC

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|---|---------------|---|---|
| IAS 19-12 | Pension promises based on performance hurdles | IAS 19 | This issue is concerned with the classification and measurement of the defined benefit obligation in respect of pension promises based on a performance hurdle. For instance, it would include plans that promise varying levels of contributions linked to the employee's performance or to the company's performance (or both). Further, if the plan is a defined benefit plan, it is not clear what allowance should be made for the performance hurdle, if any, in the calculation of the defined benefit obligation. | The IFRIC will consider the staff recommendation on a tentative agenda decision at its November 2007 meeting. |

IFRIC ISSUES WITH THE IFRIC

Other Potential Issues (not yet discussed by the IFRIC)

| Reference number | Topic | Relevant IFRS | Brief description | Progress |
|------------------|--|-------------------|--|---|
| IAS 23-1 | Foreign exchange and capitalisable borrowing costs | IAS 23/ IAS 39 | <p>IAS 23R Borrowing Costs requires entities to capitalise borrowing costs incurred in the acquisition, construction or production of qualifying assets, provided they are directly attributable to that activity. IAS 23 also permits foreign exchange differences to be included in such costs, to the extent that they are considered an adjustment to the interest costs.</p> <p>What exactly is meant by determining the element of foreign exchange differences that are an adjustment to the interest costs, particularly where foreign exchange gains are arising? What is the relationship between the hedging requirements of IAS 39 and the ‘directly attributable’ criteria in IAS 23?</p> | The IFRIC will consider the staff recommendation on a tentative agenda decision at its November 2007 meeting. |
| IAS 39-17 | Application of IAS 39.2(g) | IAS 39/ IFRS 3 | IAS 39 paragraph 2(g) exempts from the scope of the standard “contracts between the acquirer and a vendor in a business combination to buy or sell an acquiree at a future date”. What type of contracts qualify for this scope exception? Can the exception be applied by analogy to other similar transactions, such as the acquisition of an investment in an associate? | The IFRIC will consider the staff recommendation on a tentative agenda decision at its November 2007 meeting. |