



**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: January 2008, London**

**Project: IFRIC issues with IFRIC (Agenda Paper 5)**

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 7-2	Classification of expenditure on unrecognised assets (request received November 2007)	IAS 7	<p>The issue is how expenditure on unrecognised assets should be classified in the cash flow statement.</p> <p>The issue arose because some entities classified such cash flows as investing activities. Others believe that they must always be classified as operating activities.</p>	The staff will present a paper to the IFRIC discussing this issue at its January 2008 meeting.
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>	<p>Draft Interpretation approved by IFRIC at May 2007 meeting. The Board did not object to publication. D21 was published in July 2007.</p> <p>The IFRIC will consider the staff analysis of the issues raised by the comment letter at its meeting in January 2008.</p>
IAS 18-7	Customer Contributions	IAS 18	The issue is how entities should account for contributions of property, plant and equipment (or cash that must be used to construct or acquire property, plant and equipment) that must then be used to provide access to a supply of goods or services to customers.	<p>The IFRIC decided to add this issue to its agenda in May 2007.</p> <p>At its November 2007 meeting, the IFRIC continued its discussions on this issue and considered a draft Interpretation. Subject to drafting changes, the IFRIC concluded that the draft Interpretation should be published for comment.</p>

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	The issue is the accounting for investment or insurance policies that are issued by an entity to a pension plan covering its own employees (or the employees of an entity that is consolidated in the same group as the entity issuing the policy). In particular, would such policies be part of plan assets in the consolidated and separate financial statements of the sponsor.	<p>The IFRIC discussed the issue at its November 2007 meeting and tentatively decided not to take the issue on to its agenda.</p> <p>The IFRIC will consider any comments received on its tentative agenda decision at its January 2008 meeting.</p>
IAS 19-10	Treatment of employee contributions	IAS 19	The issue is the treatment of employee contributions in the measurement of the defined benefit obligation and/or the current service cost.	<p>At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda.</p> <p>An agenda decision was published in November 2007.</p>
IAS 19-11	Treatment of death-in-service benefits and other risk benefits	IAS 19	The issue is how death in service benefits should be attributed to periods of service using the Projected Unit Credit method in IAS 19.	<p>At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda.</p> <p>At its November 2007 meeting, the IFRIC considered a comment letter that disagreed with the wording of the tentative agenda decision. Whilst the IFRIC confirmed its decision not to take the issue on to its agenda, it was unable to agree on wording for its agenda decision. The staff will present a paper to the January 2008 IFRIC meeting with amended wording for its agenda decision.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 19-12	Pension promises based on performance hurdles	IAS 19	The issue is 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).	<p>The IFRIC discussed the issue at its November 2007 meeting. The IFRIC tentatively decided not to take the issue on to its agenda.</p> <p>The IFRIC will consider any comments received on its tentative agenda decision at its January 2008 meeting.</p>
IAS 19-13	Changes to a plan caused by government	IAS 19	The issue is the treatment of a change to a pension plan because of a change made by the government as an actuarial gain or loss or as a past service cost.	<p>At the September 2007 IFRIC meeting the IFRIC tentatively decided not to add this item to its agenda.</p> <p>An agenda decision was published in November 2007.</p>
IAS 19-14	Settlements as part of the terms of the plan (request received November 2007)	IAS 19	The issue is whether, if a pension plan gives employees the choice between a lump sum payment or an annuity, the payment of the lump sum constitutes a settlement.	The staff will present a paper to the IFRIC discussing this issue at its January 2008 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"> <li>1) between which currencies the risk in a net investment arises; and</li> <li>2) In which entity within a group the instrument hedging a net investment may be held.</li> </ol>	<p>Draft Interpretation approved by IFRIC at May 2007 meeting, subject to drafting changes. The Board did not object to publication. D22 was issued in July 2007.</p> <p>The IFRIC will consider the staff analysis of the major issues raised by the comment letters at its meeting in January 2008.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 23-1	Foreign exchange and capitalisable borrowing costs	IAS 23/ IAS 39	The issue is how entities should determine the element of foreign exchange differences that are considered an adjustment to the interest costs, particularly where foreign exchange gains arise. In some situations, entities may hedge interest rate or foreign exchange risks relating to such borrowings. The IFRIC was also asked how such hedging activities should be accounted for.	<p>The IFRIC discussed the issue at its November 2007 meeting and tentatively decided not to take the issue on to its agenda.</p> <p>The IFRIC will consider comments received relating to this tentative decision at its January 2008 meeting.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 27-5	Accounting for non-cash asset distributions to owners	IAS 27	The issue is how an entity should account for non-cash asset distributions to its owners acting in their capacity as owners.	<p>At its May 2007 meeting, the IFRIC agreed to take the issue on to its agenda.</p> <p>At its July 2007 meeting, the IFRIC agreed with the scope of the project. The IFRIC agreed to define an asset distribution as an unconditional non-reciprocal transfer of the asset by an entity to its owners.</p> <p>At its September 2007 meeting, the IFRIC discussed how an entity should measure its non-cash asset distributions by focusing on how it should measure the corresponding dividends payable in accordance with IFRSs. The IFRIC concluded that all dividends payable, regardless of the types of the assets to be distributed, should be measured in accordance with IAS 37.</p> <p>At its November 2007 meeting the IFRIC discussed a Draft Interpretation. Subject to some comments, the IFRIC approved the publication of the Draft Interpretation. The IFRIC directed the staff to ask the Board (a) whether it would object to the publication of the Draft Interpretation and (b) to approve the draft of a proposed amendment to IFRS 5.</p> <p>At its December meeting, the Board agreed with the IFRIC's conclusion that IFRS 5 should apply to assets held for distribution. However, it asked the IFRIC to request constituents to comment on the date IFRS 5 should be applied.</p>

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"> <li>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</li> <li>2) When the pass through tests in IAS 39 should be applied to a transfer of a financial asset.</li> </ol>	<p>At its July 2006 meeting, the IFRIC agreed to refer these issues to the Board for clarification.</p> <p>At the September 2006 Board meeting, the Board discussed these issues.</p> <p>The Board's observations were communicated to the IFRIC at its November 2006 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>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 39-15	Scope of IAS 39 paragraph 11A	IAS 39	The issue is 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 its May 2007 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 its July 2007 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.</p> <p>At its November meeting the IFRIC considered the approach to recommend to the Board. The IFRIC recommended that the Board should clarify paragraph 11A by specifying whether it applies only to contracts with embedded derivatives that have financial hosts, or whether the fair value option can be applied to all contracts with embedded derivatives.</p> <p>At its December meeting, the Board decided to clarify this issue in its annual improvements project.</p>

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 its May 2007 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 its July 2007 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.</p> <p>At its November meeting the IFRIC considered the approach to recommend to the Board. The IFRIC believed that the Board intended paragraph AG33(d) to apply only to embedded foreign currency derivatives that are integral to the arrangement and hence bear a close economic relationship to the contract. However, the IFRIC did not believe that making an explicit statement to that effect would clarify the standard and eliminate the diversity in practice. The IFRIC recommended that the staff suggest how the paragraph could be amended to reflect the Board's intentions, for the Board's consideration.</p> <p>At its December meeting, the Board decided to clarify this issue in its annual improvements project.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
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?	<p>The IFRIC discussed the issue at its November 2007 meeting. The IFRIC tentatively decided not to take the issue on to its agenda.</p> <p>The IFRIC will consider any comments received on its tentative agenda decision at its January 2008 meeting.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IFRS 2-10	Group cash-settled share-based payment transactions	IFRS 2	<p>The issue is 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"> <li>• 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.</li> <li>• 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.</li> </ul> <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>	<p>At its July 2007 meeting, the IFRIC agreed that both arrangements should be within the scope of IFRS 2.</p> <p>At its September 2007 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.</p> <p>At its October 2007 meeting, the Board decided to propose amendments to IFRS 2 and IFRIC 11. The Board asked the staff to prepare an exposure draft.</p> <p>The exposure draft was issued in December 2007 with comments requested in March 2008.</p>

Reference number	Topic	Relevant IFRS	Brief description	Progress
IFRS 5-2	Disclosures	IFRS 5	The issue is whether the disclosure requirements of IFRS 7 <i>Financial Instruments: Disclosures</i> and IAS 19 <i>Employee Benefits</i> apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5.	<p>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.</p> <p>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.</p> <p>At its meeting in October 2007, the Board decided to clarify the standard in its annual improvement project..</p>