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International Accounting Standards Board

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:	**D24 *Customer Contributions* – Cover note and sweep issues (Agenda Paper 2A)**

Introduction

1 At its July and September 2008 meetings, the IFRIC considered comments received on draft Interpretation D24 *Customer Contributions*. When redeliberating the issues, the IFRIC tentatively decided to:

- simplify the requirements and address the issue of which entity controls the transferred asset by giving guidance based on the *Framework* and existing IFRSs;
- develop guidance based on paragraph 13 of IAS 18 *Revenue* to help identify the services to be provided in exchange for the transferred asset.

2 At its September 2008 meeting, the IFRIC asked the staff to present at the November meeting a revised draft of the Interpretation that takes into account the IFRIC's tentative views and that includes a basis for conclusions and illustrative examples.

3 At this meeting, the staff present the following papers:

- Agenda paper 2A—Cover note and sweep issues;
- Agenda paper 2B—Draft Interpretation;
- Agenda paper 2C—Draft Basis for Conclusions;
- Agenda paper 2D—Illustrative examples.

4 Agenda paper 2A addresses the sweep issues, re-exposure, effective date, transition and vote to confirm consensus. When needed, the staff refer to the other papers.

Sweep issues

Title of the Interpretation

5 The staff is aware that, in some jurisdictions, the term 'contribution' has the implication of a donation rather than an exchange transaction. For that reason, the staff suggest using the term 'transfer' and have redrafted the Interpretation accordingly, including the title ('transfers of assets from customers'). The staff do not believe the redrafting alters the meaning or understandability of the draft.

Indicators

6 As discussed by the IFRIC in September, the staff added an indicator of control of the asset based on IAS 17 in paragraph 10(c) of agenda paper 2B. With the addition of this indicator, the staff think that the revised draft Interpretation gathers in one place all the relevant guidance set out in the *Framework* and existing IFRSs that constituents need to consider in respect of the issue.

7 The staff deleted the indicator 'customers are charged a fee for ongoing access either as a separate charge or as a minimum periodic charge regardless of usage' set out in paragraph 16(a) of agenda paper 2B for the September IFRIC meeting. The staff agree with the IFRIC view at the September meeting that this indicator is not critical in the identification of a separate component for the ongoing service.

Disclosures

8 The staff considered the disclosure requirements of the relevant standards and concluded that these standards would lead an entity to disclose the necessary relevant information for users in respect of transfers of assets from customers. Therefore, the staff's view is that no specific disclosures are needed.

Illustrative examples

9 See agenda paper 2D.

10	Questions for the IFRIC: do you agree with the staff's conclusions on the sweep issues above? Do you have any comments on agenda papers 2B, 2C and 2D?

Re-exposure

11 Paragraph 40 of the Due Process Handbook for the IFRIC states that:

> 'If the proposed Interpretation is changed significantly, the IFRIC will consider whether it should be re-exposed. Re-exposure is not required automatically and will depend on the significance of the changes contemplated, whether they were raised in the Basis for Conclusions on the draft Interpretation or in questions posed by the IFRIC, their significance for practice and what might be learned by the IFRIC from re-exposure.'

12 The staff has summarised the main changes from D24 in paragraph BC25 of agenda paper 2C. Overall, the staff believe that the conclusions an entity would have reached applying the draft Interpretation would not be significantly different

from those it would reach applying Agenda Paper 2B, with one possible exception. The IFRIC made changes to D24 to address the concerns expressed by respondents, including some utility companies, that an entity receiving a transfer of an asset from a customer does not *always* have an obligation to provide ongoing access to a supply of goods or services. Although D24 noted that revenue might be recognised over a very short period after the recognition of the transferred asset, the draft final Interpretation makes it clear that an entity might not defer the recognition of any revenue (see example 1 in agenda paper 2D).

13 The staff agrees with the respondents and the IFRIC that the draft final Interpretation is a better application of the relevant literature and emphasises the importance of considering all the relevant facts and circumstances. The staff believes that the other changes to D24 also respond appropriately to issues raised by respondents. For those reasons, the staff believe that re-exposure would not result in the identification of new issues and any benefits from re-exposing the Interpretation would be too small to justify the delay in issuing it. Therefore, the staff recommend that the Interpretation should not be re-exposed.

14 Questions for the IFRIC: does the IFRIC agree that the revised draft Interpretation should not be re-exposed?

Effective date

15 If the Interpretation is approved by the IFRIC at this meeting, it is likely that it will be issued at the end of December 2008 or early in January 2009. The staff's view is that the IFRIC's standard three month lead time after publication would be sufficient. Therefore, the staff recommend that the Interpretation should be effective for accounting periods beginning on or after 1 April 2009.

Transition

16 The staff believe that the IFRIC should reaffirm its conclusion that the Interpretation should require prospective application for the reasons exposed in paragraph BC33 of D24:

> 'The IFRIC noted that applying its Interpretation retrospectively would require entities to establish a carrying value for assets that had been contributed in the past. That carrying value would be based on historical fair values. Those fair values may not be based on an observable price or observable inputs. The IFRIC therefore concluded that it would be impracticable to apply the proposed Interpretation retrospectively and that the Interpretation should require prospective application.'

17 Questions for the IFRIC: do you agree with the staff's recommendations for effective date and transition?

Vote to confirm consensus

18 If no substantial issues arise from the matters discussed above, the IFRIC will be asked to vote to confirm the consensus at this meeting. If no more than four members vote against the proposal, the IASB will be asked to approve the Interpretation at its December meeting.