



Project	Annual Improvements
Topic	Addendum to incorporate IFRIC recommendations

Update from IFRIC meeting

1. As noted in agenda paper 3, the agenda papers the staff will present to the Board relate to issues that were also discussed at the IFRIC meeting on 9 July. Since the 3-series agenda papers were drafted prior to the IFRIC meeting, this agenda paper (3-Addendum) provides an update on the results of the IFRIC's discussions.
2. This agenda paper provides additional information beyond that included in the *IFRIC Update* which is agenda paper 7.

Issue the IFRIC does not recommend including in AIP and does not recommend other action by the Board

3. During the July 2009 meeting, the IFRIC discussed the following issues and did not make a recommendation to include them in the annual improvements project. The specific reasons are detailed below for each issue.

IAS 39 – Debt to equity swap (agenda paper 3C)

4. The IFRIC concluded that IFRSs do not contain specific guidance on accounting for a debt to equity swap; however, IFRSs do provide guidance on several specific transactions that are similar in nature to this issue. The IFRIC also noted that although this issue is within the scope of the IASB's project on *Financial Instruments with Characteristics of Equity*, the issue was sufficiently narrow in scope to be capable of interpretation by the IFRIC.
5. The IFRIC noted that this issue is widespread and divergent interpretations exist that could have significant effects on financial reports. The IFRIC considered recommending that the Board consider this issue for inclusion in the annual

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Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

improvements project. However, the IFRIC was concerned that by indicating an amendment to the standard was required, it could give the impression that divergent views were acceptable in current practice.

6. Therefore, the IFRIC decided to add this issue to its agenda and to develop a draft interpretation for public comment as soon as possible. The IFRIC plans to approve the draft Interpretation for exposure at a special IFRIC meeting to be held by teleconference before the end of July. The Board will be asked to give negative clearance to publication of the draft in accordance with normal due process procedures.

Issues the IFRIC recommends the Board address by actions other than through the AIP

7. During the July 2009 IFRIC meeting, the IFRIC recommended that the Board address the following two issues by actions other than through the annual improvements project.

IFRS 5 – Write down of a disposal group (agenda paper 3B)

8. The IFRIC acknowledges that there can be a conflict in the IFRS 5 requirements to recognise the disposal group at fair value less costs to sell and its limitation on the assets and liabilities to which that loss can be allocated. The IFRIC believes this issue relates to the basic requirements of IFRS 5 for disposal groups and therefore this issue cannot be addressed by an IFRIC interpretation. Additionally, the IFRIC does not believe this issue meets the requirements for inclusion within the annual improvements project especially because IFRS 5 is an essentially converged standard. Rather, the IFRIC recommends that the Board amend IFRS 5 as a matter of priority to address the issue.

IAS 32 – Rights issues denominated in a foreign currency (agenda paper 3F)

9. The IFRIC received a request to clarify whether its 2005 conclusion on an issue regarding convertible bonds denominated in a currency other than the entity's functional currency should also be applied to the issue of a call option (rights issue) entitling the holder to receive a fixed number of the entity's shares for a fixed amount of foreign currency.
10. At its meeting the IFRIC was not requested to make an agenda decision. Rather, they were asked to provide advice to the staff on how we should proceed

with this and other similar questions. However, the IFRIC was concerned that the application of its previous conclusion, which was discussed and previously endorsed (at least implicitly) by the Board would result in an inappropriate classification of rights issues. In addition, in the current environment the IFRIC noted that many entities are raising capital and therefore, this issue has widespread practical relevance.

11. The IFRIC believes this issue should be addressed more timely than permitted by the normal timeframe of the annual improvements project. Consequently, the IFRIC recommended 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.

Issue the IFRIC has no recommendation for the Board, but acknowledges the Board will consider the issue

12. During the July 2009 meeting, the IFRIC discussed the following issue. The IFRIC decided tentatively not to add this issue to its agenda. Specific points discussed by the IFRIC in making its decision are detailed below.

IAS 23 – Meaning of ‘general borrowings’ (agenda paper 3A)

13. The IFRIC noted that paragraph 14 of IAS 23 only refers to qualifying assets for exclusion from the determination of the capitalisation rate for general borrowings. 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.’ Additionally, the IFRIC concluded that any guidance it could provide would be in the nature of application guidance rather than an interpretation.

Issues the IFRIC does recommend including in AIP

14. During the July 2009 meeting, the IFRIC discussed the following issues and agreed with the overall staff recommendation to include these two items in the 2009 annual improvements project:
 - *IFRS 3 – Un-replaced and voluntarily replaced share-based payments awards (agenda paper 3D)*
 - *IFRS 3 – Measurement of NCI (agenda paper 3E)*