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 Committee met in London on 6 and 7 May, when it discussed:

- 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
- Annual Improvements
- IFRS Interpretations Committee work in progress

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.

In May 2010, the staff presented a draft Interpretation. The Committee discussed the Consensus and Basis for Conclusions included within the draft Interpretation and tentatively agreed that:

- where costs incurred as a result of a stripping campaign do not meet the definition of an asset, they shall be accounted for as inventory costs in the current period.
- when a stripping campaign creates a benefit of improved access, and this benefit meets the definition of an asset (the 'stripping campaign component'), it is accounted for as an addition to, or enhancement of, an existing tangible or intangible asset.
- the stripping campaign component shall be specifically identified with the ore directly benefiting from the stripping campaign. This will also form the basis of its subsequent amortisation or depreciation.

The Committee asked the staff to revise the draft Interpretation to reflect the discussion and include:

- describing the concept of the 'stripping campaign', with the possible inclusion of an explanatory diagram;
- explaining the difference between 'suspension' of and 'termination' of a stripping campaign, for the purposes of determining how to account for any remaining carrying amount of the stripping campaign component in these circumstances;
- clarifying the transition guidance, especially when an entity is currently applying the strip ratio approach; and
- reflecting the results of additional outreach to determine the nature and extent of any disclosure requirements.

The Committee also requested that the revised draft Interpretation be presented at the next meeting.

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 March 2010 meeting, the Committee received an update from the staff and requested the staff to consider whether convergence with US GAAP on this matter would be helpful.

At the May 2010 meeting, the Committee discussion included an analysis of several definitions related to vesting and non-vesting conditions, the interaction between multiple vesting conditions and the determination of the attribution period.

The Committee discussed:

- clarifying the definition of a vesting condition and a vesting period;
- incorporating into IFRSs definitions of non-vesting, service, performance and other vesting conditions, and definitions of attribution period;
- removing from IFRSs the definition of a market condition;
- returning to an employee perspective when assessing vesting conditions;
- providing further guidance on contingent features and the interaction of multiple vesting conditions; and
- including guidance on determining the period over which to recognise compensation cost (the 'attribution period') when an arrangement includes multiple vesting conditions.

No decisions were made by the Committee at this meeting. The Committee requested the staff perform additional work to determine the impact of the proposed changes to IFRS 2 *Share-based Payment* on current practice and to clarify certain of the proposed definitions. These findings will be presented at a future meeting along with a recommendation from the staff on how the proposals should be implemented.

Put options written over non-controlling interests

The Committee received 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 request focuses on the accounting for an NCI put after the 2008 amendments were made to IFRS 3 *Business Combinations*, IAS 27 *Consolidated and Separate Financial Statements* and IAS 39 *Financial Instruments: Recognition and Measurement*.

The issue arises because of a potential conflict that these amendments created between the financial instruments guidance in IAS 32 *Financial Instruments: Presentation* and IAS 39 and the guidance in IAS 27.

The Committee observed that some constituents believe, consistent with the guidance in IAS 32 and IAS 39, that because a financial liability is initially recognised for the NCI put, subsequent changes in its carrying amount should be recognised in profit and loss.

However, the Committee noted that other constituents believe that, consistent with the guidance in IAS 27 on transactions with non-controlling interests, changes in the carrying amount of the NCI put should be recognised in equity.

The Committee decided to add the issue of accounting for NCI puts to its agenda. The Committee directed the staff to develop a paper for discussion at the next meeting that;

- includes illustrative examples of the issues discussed; and
- assesses the proposed scope of the project.

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.*

IFRS 1 *First-time Adoption of International Financial Reporting Standards* ─ Accounting for costs included in self-constructed assets on transition

The Committee received two requests concerning the application of IFRSs for an entity that capitalises certain costs, including actuarial gains and losses, as part of self-constructed assets, in accordance with its previous GAAP accounting policies. On transition to IFRSs, the entity changes its accounting policy for actuarial gains and losses and determines that they should no longer be capitalised. The requests ask whether the entity should adjust the carrying amount of self-constructed assets on transition to IFRSs and, if not, how the change in its actuarial gains and losses accounting policy should be reflected in the carrying amount of self-constructed assets in subsequent reporting periods.

The Committee noted that paragraph 7 of IFRS 1 requires an entity to use 'the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements'.

The Committee concluded that the issue is not currently widespread, although it may impact certain entities in jurisdictions transitioning to IFRS, and that there are not significantly divergent interpretations (either emerging or already existing in practice). Therefore, the Committee decided not to add this issue to its agenda.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Reversal of disposal group impairment losses relating to goodwill

The Committee received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill.

The Committee noted a potential conflict between the guidance in paragraph 22 and paragraph 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill. However, the Committee also observed that the issue may not be resolved efficiently within the confines of existing IFRSs and the *Framework* and that it is not probable that the Committee will be able to reach a consensus on a timely basis.

The Committee also noted the decision taken by the Board in December 2009 not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. Consequently, the Committee decided not to add this issue to its agenda and recommended that the Board address this issue in a post-implementation review of IFRS 5.

IAS 26 *Accounting and Reporting by Retirements Benefit Plans* – Valuation of plan assets

A request was received to clarify the interaction between IAS 26 and IAS 39 *Financial Instruments: Recognition and Measurement* relating to the accounting for retirement benefit plan investments (plan assets), in the financial statements of retirement benefit plans prepared in accordance with IAS 26.

The Committee observed that the guidance in paragraph 32 of IAS 26 is clear that plan assets shall be carried at fair value. The Committee also noted that it is clear that changes in the fair value of plan assets should be presented and disclosed in accordance with paragraph 35 of IAS 26 in the statement of changes in net assets available for benefits.

The Committee concluded that IFRSs are clear and that divergent interpretations are not expected in practice. Consequently, the Committee decided not to add this issue to its agenda or to recommend an amendment to the standards.

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 July 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 14 June 2010 by email to: ifric@iasb.org. Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

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 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 a tax planning opportunity. If so, it questions 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 noted that the objectives of IAS 12 and the deferred tax recognition principle relating to deductible temporary differences are based on recovering or settling the carrying amount of the asset or liability at the reporting date. The Committee also noted that, in the context of the fact pattern in the request, the entity's actions to hold the AFS debt securities to maturity do not meet the definition in paragraph 30 of IAS 12 of a tax planning opportunity. In addition, the approach in paragraphs 24-31 of IAS 12 requires an entity to assess the probability of realising deferred tax assets on a combined basis that is consistent with the rules established by the taxation authorities.

The Committee noted that IAS 12 provides sufficient guidance on the recognition of deferred tax assets relating to AFS debt securities and that it does not expect diversity in practice. Consequently, the Committee [decided] not to add this 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 50C of IAS 39 requires 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.

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.*

2009–2011 Cycle

At its meeting in May 2010, the Committee deliberated the following issues and recommended the Board add these issues to *Annual Improvements*. The Committee’s recommendations will be submitted to the Board for discussion at a future Board meeting. If these issues are confirmed by the Board they will be included in the exposure draft of proposed *Improvements to IFRSs* expected to be published in October 2010. The issues discussed were:

IFRS 1 *First-time Adoption of International Financial Reporting Standards* — Clarification of borrowing costs exemption

A request was received to clarify the accounting for borrowing costs at the date of transition to IFRSs. Because paragraph D23 of IFRS 1 is silent on the subject, some constituents question whether borrowing costs capitalised in accordance with previous GAAP should be eliminated or be carried forward on transition. The constituents also seek clarification as to how to account for borrowing costs incurred after transition for qualifying assets that are under construction at the date of transition.

To address these concerns, the Committee recommended the Board amend the exemption for borrowing costs in IFRS 1. The proposed amendment would require an entity to apply the requirements in IAS 23 *Borrowing Costs* to borrowing costs incurred on qualifying assets as from the date of transition to IFRSs. The amendment will not require an entity to restate the borrowing costs component of assets determined in accordance with previous GAAP at the date of transition. However, an entity may choose to apply IAS 23 from an earlier date.

IAS 1 *Presentation of Financial Statements* – Comparative Information

The Committee discussed issues in IAS 1 related to the requirements for comparative information specifically when an entity provides some, but not all, individual financial statements beyond the required comparative information.

In March 2010, the Board deliberated these issues in the context of the *Financial Statement Presentation* project. The Board decided that only one comparative period is required for a complete set of financial statements and that any additional comparative information presented in one or more statements must be prepared in accordance with current IFRSs and must be presented with the same prominence as the required comparative information. Additionally, the Board decided that when there is a change in accounting policy, restatement or reclassification, an entity shall present an opening statement of financial position as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods.

An exposure draft on that project is scheduled to be published in Q2 2010. Based on the Board decisions included in that exposure draft, the staff will provide an analysis to the Committee for review and recommendation to the Board to add these issues to *Annual Improvements* to provide clarity for existing IFRSs that is consistent with the proposals included in the exposure draft *Financial Statement Presentation*. The staff will provide this analysis to the Committee for deliberation at the next meeting.

IAS 16 *Property, Plant and Equipment* – Clarification of accounting for servicing equipment

A request was received to address a perceived inconsistency in IAS 16 with respect to the classification of servicing equipment as property, plant and equipment or inventory. The perceived inconsistency is because some believe that paragraph 8 of IAS 16 requires servicing equipment to be classified as inventory even if it is used during more than one period. In addition, this paragraph unnecessarily introduces the additional 'used only in connection with' condition to the current definition of property, plant and equipment.

The Committee recommended the Board amend IAS 16. The proposed amendment will clarify that servicing equipment is property, plant and equipment when an entity expects to use it in more than one period and inventory when the entity expects to use it in less than one period. It will also propose to delete the requirement that spare parts and servicing equipment used during only one period in connection with an item of property, plant and equipment be classified as property, plant and equipment.

Issues with recommendations not to be added to the Annual Improvements

The Committee deliberated one additional issue for consideration within *Annual Improvements*. The Committee decided to recommend the Board not add this following issue to *Annual Improvements*:

IAS 32 *Financial Instruments: Presentation* – Clarification of the puttable instruments criteria for income trust units

The Committee considered a request for clarification of guidance relating to the classification of puttable financial instruments that include contractual obligations to provide pro rata distributions. The request proposes an amendment to the guidance in IAS 32 as part of *Annual Improvements* to clarify that a put can be classified as equity if it has a contractual obligation to deliver cash, or another financial asset, to all existing holders of the instrument on a pro rata basis.

The Committee decided not to propose an amendment to address this issue. This is because;

- the Board clearly identified unique circumstances that justified the *Classification of Rights Issues (Amendment of IAS 32)*. These unique circumstances do not exist in relation to the fact pattern in this request.
- it could be considered an additional exception to the definition of a financial liability. This would be outside the scope of *Annual Improvements*.
- it would only be effective for annual periods beginning on or after 1 January 2012. This is expected to be after the Board have issued a final *Financial Instruments with Characteristics of Equity* standard.

IFRS Interpretations Committee work in progress

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 reviewed feedback received from members of the National Standard Setters group on the issue. It also considered the approach to transitioning to IFRSs proposed in the March 2009 *Derecognition – Proposed amendments to IAS 39 and IFRS 7* exposure draft. This exposure draft did not clarify whether a fixed or a relative date should be used.

The Committee recommended that the issue is revisited at a later date, once the transition requirements of the proposed *Derecognition* standard are decided.

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*.

The Committee recognised the similarity of the issue to the proposed amendment discussed in the May Committee meeting relating to paragraph B2 of IFRS 1 (the derecognition exception).

The Committee recommended that both issues are revisited at a later date, and resolved together.

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 due to foreign listing requirements, and had previously 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 IFRS 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 noted 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 expressed support for recommending the Board amend IFRS 1 as part of *Annual Improvements* to clarify that an entity shall apply IFRS 1 when it meets the scope of the standard even if it has applied IFRS 1 in a previous reporting period.

The Committee requested the staff present the proposed draft wording for this amendment at the next meeting.

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 did not comply with IAS 29. The request identifies an entity whose functional currency is the currency of a hyperinflationary economy. The entity is unable 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, that is, the entity's functional currency is suffering from chronic hyperinflation. The entity's functional currency then changes to a non-hyperinflationary currency.

The Committee noted that current IFRSs do not provide guidance relating to the issue and that it is not possible to prepare financial statements in accordance with IFRSs during a period of chronic hyperinflation.

The Committee reached a tentative conclusion 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 a currency that is suffering from chronic hyperinflation. This guidance, which is different to the two approaches proposed in the request, would require the entity to:

- measure assets and liabilities on a fair value as deemed cost basis at that date.
- apply all applicable IFRSs prospectively from that date.
- be deemed a new accounting entity from that date. Consequently, there is no comparative information for the new accounting entity, for periods before that date.

The Committee requested the staff present the proposed draft wording for this amendment at the next meeting and an analysis of how the proposed draft wording addresses other potential issues identified by the Committee in relation to the request.

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

At its March 2010 meeting, the Committee recommended the Board not finalise one of the proposed amendments included in the exposure draft of proposed *Improvements to IFRSs* published in August 2009. Instead, the Committee recommended that the Board address this issue, relating to inconsistent guidance in IAS 40 regarding the classification and measurement of an investment property when management intends to sell the asset, as part of a separate project.

The Board discussed the Committee's recommendation at its March 2010 meeting. The Board was reluctant to add another project to the agenda and requested that the issue be referred back to the Committee for further deliberation.

No decision was requested of the Committee at this meeting. The staff will present its recommendations to the Committee at its meeting in July 2010.

Committee outstanding issues update

The Committee reviewed a summary of outstanding issues. With the exception of three outstanding issues, all requests received and considered by the staff were discussed at this meeting. The outstanding issues are expected to be discussed at the July 2010 Committee meeting.

Future IFRS Interpretations Committee meetings: 2010

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

In addition to the meetings listed above, the Committee may hold meetings for a preliminary discussion of some staff papers. Attendance by Committee members at these meetings is voluntary and no decisions on technical issues will be made. If the Committee holds a preliminary meeting, it will normally take place on the Wednesday afternoon before the Committee meeting.

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

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