IFRIC Meeting	Agenda reference	8
Staff Paper	Date	March 2010

Project	**IFRIC Issues Update List**
Topic	**Work in progress**

Introduction

Objective of this paper

1. The objective of this paper is to update the IFRIC on the current status of issues and the progress made by the staff. Appendix A provides a summary of these issues and their current status.

2. Appendix B provides a recently received issue without modification (except for removal of submitter contact information). This issue is being analysed by the staff and will be discussed at a future IFRIC meeting.

3. The paper does not include issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or others, to define more clearly the issue to be addressed.

Question
Does the IFRIC have any questions or comments on the IFRIC Issues Update List?

Appendix A – IFRIC Issues Update List

IFRIC Issues being considered by the IFRIC

Reference number	Topic	Brief description	Progress
IAS 16-4	Accounting for production stripping costs (request received in June 2009)	The issue is how to account for stripping costs when they are incurred in the production phase of the mine.	At the January 2010 meeting, the staff presented a paper discussing the scope of the interpretation. At the March 2010 meeting, the staff will present 2 papers: one on the costs of waste removal and the associated benefit, and the other on attribution of the stripping cost asset.
IFRS 2-11	Classification of conditions (request received May 2009)	The issues are: 1. the reason conditions in share-based payment arrangements should be treated as non-vesting 2. whether a condition that affects only the timing of vesting should be treated as a vesting or non-vesting condition.	The IFRIC received a request to add to its agenda a project to clarify how the examples of non-vesting conditions in paragraph IG24 of IFRS 2 should be applied. At the January 2010 IFRIC meeting the staff presented its preliminary analysis of the issues and recommendation on whether the issues should be added to the agenda. At this meeting, the IFRIC decided to add this issue to its agenda and requested the staff perform further research and analysis for deliberation at a future meeting. The work in this area is continuing and the staff will present papers addressing the technical issues at the May 2010 meeting for the IFRIC's deliberation. At the March 2010 meeting, the staff will present a brief summary of the progress to date.

IFRIC Issues being considered for addition to the agenda

Reference number	Topic	Brief description	Progress
IFRS 1-2	Accounting for costs included in self-constructed assets on transition (request received October 2009)	The issue is whether restatement is needed when an entity has previously capitalised costs, but changes it accounting policy for these costs upon adoption of IFRS.	At the January 2010 meeting the staff presented its analysis of the issues and recommendation on whether the issues should be added to the IFRIC agenda. At the March 2010 meeting, the staff will present further analysis following requests made by the IFRIC in the January 2010 meeting.
IFRS 1-3	Fixed date in the derecognition exemption (request received November 2009)	The issue is whether the date of January 1, 2004 in paragraph B2 of IFRS 1 should be replaced with a relative date, for example, the date of transition.	At the March 2010 meeting, the staff will present an analysis of this issue for consideration.
IFRS 3R-6	Non-controlling interest (NCI) puts (request received in December 2009)	The issue is whether changes in the fair value of a NCI Put should be recognised in P&L or in equity.	The staff expects to present an analysis of the issue and a recommendation on whether the issue should be added to the IFRIC agenda at the May 2010 IFRIC meeting. Refer to Appendix B for details of the agenda request.

Reference number	Topic	Brief description	Progress
IFRS 3R-7	Accounting for contingent consideration from business combinations that occurred prior to the date of application of IFRS 3R for first-time adopters (request from the IFRIC January 2010 meeting)	A recently approved Annual Improvement to be published in *Improvements to IFRSs* in April 2010 clarifies the transition relief for contingent consideration for existing preparers. Some constituents expressed concern on the lack of equivalent relief provided to first-time adopters.	The staff will present its analysis of this issue at the IFRIC meeting in March 2010 together with its recommendation as to whether the IFRIC should or should not proceed with an exemption for first-time adopters.
IFRS 5-4	Reversal of Impairment Losses under IFRS 5 (request received in November 2009)	The issue is whether an impairment loss for a disposal group can be reversed if it relates to the reversal of an impairment loss that had been recognised for goodwill in a previous period.	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation on whether the issue should be added to the IFRIC agenda.
IFRS 8-1	Transition provisions for IFRS 8 amendment of IAS 36 (request received November 2009)	The issue is whether impairments triggered by the change in the identification of segments as a result of adopting IFRS 8, should be recognised in the current period or as a prior period restatement.	At the January 2010 meeting, the IFRIC tentatively decided not to add the issue to its agenda At the March 2010 meeting, the IFRIC will consider comments received and decide whether to confirm that decision.

Reference number	Topic	Brief description	Progress
IFRS 8-2	Determination of scope of IFRS 8 (requests received August 2009 and November 2009)	The issue relates to a requests for clarification of the meaning 'public market' and clarification of when an entity falls within the scope of IFRS 8 if the filing of financial statements is required only after instruments are issued in a public offering, but are not traded in a public market.	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation on whether the issue should be added to the IFRIC agenda.
IAS 1-6	Comparative information	The issue is how to apply the revised requirements for comparative information when an entity provides individual financial statements beyond the minimum comparative information requirements	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation on whether the issue should be added to the IFRIC agenda.
IAS 12-9	Tax effect of distributions to equity holders (request received in 2008, but no longer addressed by Income Taxes project)	The issue is whether the tax effect of a distribution to a holder of an equity instrument should be recognised in equity or profit or loss.	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation whether the IFRIC should proceed with an amendment to address this issue.
IAS 19-14	Definition of plan assets (request received December 2009)	The request seeks clarification of the circumstances in which assets qualify to be accounted for as plan assets in accordance with IAS 19	The staff has resolved the issue through meetings held with the requester. As a result, the staff will not be presenting an analysis of the issue to the IFRIC.

Reference number	Topic	Brief description	Progress
IAS 21-2	Determining the functional currency of an investment holding company (request received in July 2009)	The request is for guidance on whether the underlying economic environment of subsidiaries should be considered in determining the functional currency of the stand-alone financial statements of the investment holding company	At the January 2010 meeting the IFRIC tentatively decided not to add the issue to its agenda At the March 2010 meeting the IFRIC will consider comments received and decide whether to confirm that decision.
IAS 21-3	Recycling of currency translation adjustment on reduction in (absolute) investment in associate (request received November 2009)	The request seeks clarification on whether an entity should recycle a part of the currency translation adjustment to profit or loss when the entity's net investment in the associate is reduced in absolute, but not relative, terms.	At the March 2010 meeting, the staff will present a preliminary analysis of the issues and request preliminary views from the IFRIC.
IAS 26-1	Accounting for plan assets in the financial statements of Retirement Benefit Plans (request received September 2009)	The issue relates to whether plan assets held by retirement benefit plans should be accounted for in accordance with IAS 26 or IAS 39.	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation on whether the IFRIC should proceed with an amendment to address this issue.
IAS 29-2	Financial reporting after a period of chronic hyperinflation (request received November 2009)	The issue relates to how an entity should recommence reporting in accordance with IFRS, following a period of hyperinflation during which the price indices required by IAS 29 were unobtainable.	The staff expects to present an analysis of the issue and a recommendation on whether the IFRIC should proceed with an amendment to address this issue.

Reference number	Topic	Brief description	Progress
IAS 32-9	Consideration of shareholder discretion (request received July 2009)	The issue is the determination of whether a financial instrument should be classified as a financial liability or as equity when the entity has a contractual obligation to deliver cash at the discretion of the issuer's shareholders.	At the January 2010 meeting the IFRIC tentatively decided not to add the issue to its agenda At the March 2010 meeting the IFRIC will consider comments received and decide whether to confirm that decision.
IAS 34-3	Disclosure of segment information on total assets (request received September 2009)	The request seeks clarification of whether disclosure of total assets for each reportable segment is required by IAS 34 only when provided to the Chief Operating Decision Maker.	At the March 2010 meeting, the staff will present its analysis of the issues, and its recommendation whether the IFRIC should proceed with an amendment to address this issue.
IAS 39-25	Unit of account for forward contracts with volumetric optionality (request received in July 2009)	The issue is to provide guidance where a contract has both option and non-option elements – whether the elements can be assessed as 2 separate contracts when applying paragraphs 5 -7 of IAS 39 *Financial Instruments: Recognition and Measurement*	At the November 2009 meeting the IFRIC requested that the staff considers an additional view that they believe exists in practice. At the January 2010 meeting the IFRIC tentatively decided not to add the issue to its agenda At the March 2010 meeting the IFRIC will consider comments received and decide whether to confirm that decision.

Appendix B – Recent Submission

A1. The following issue was recently submitted to the IFRIC and is included without modification (except for removal of submitter contact information). This issue is being analysed by the staff and will be discussed at a future IFRIC meeting.

IFRIC Potential Agenda Item Request: Changes in the carrying amount of a put option written to a non-controlling shareholder

The XX would like to put forward a potential IFRIC agenda item related to how an entity should account for changes in the carrying amount of a financial liability for a put option written to a non-controlling shareholder ("NCI put") in the consolidated financial statements of the parent. In some cases an NCI put may be written as part of a business combination (transaction in which control is obtained), and in other cases it may be written separately from a business combination.

The issue

An entity may write a put option to the non-controlling shareholders in a subsidiary on the noncontrolling shareholders' shares in that subsidiary. If the put option granted to the non-controlling shareholders provides for settlement in cash or in another financial asset of the entity, then the entity recognises a financial liability at fair value, which in a simple case of a fixed exercise date and price is the present value of the exercise price of the option; this is consistent with the IFRS 3 requirement to measure contingent consideration at fair value in the acquisition accounting. At each reporting date IFRS requires that the liability is remeasured to fair value. [IAS 32.23, IAS 39.47, AG8, IFRS 3.39]

For example, Parent owns a 90 percent interest in Subsidiary and has written a put option on the remaining 10 percent interest in Subsidiary ("NCI put"). The put requires gross physical settlement. The NCI put is recognised as a liability for the present value of the exercise price of the option in the consolidated financial statements of Parent.

The issue is whether subsequent changes in the carrying amount of the put price liability on the NCI should be recognised in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or whether such changes should or may be recognised directly in equity as arising from transactions with non-controlling interests (NCI).

This issue is being raised in the context of NCI puts written under IFRS 3 (2008) *Business Combinations*, IAS 27 (2008) *Consolidated and Separate Financial Statements*, and the related 2008 amendments to IAS 39 *Financial Instruments: Recognition and Measurement*.

Current practice

Although there is not yet a well-developed body of practice under IFRS 3 (2008) and IAS 27 (2008), the accounting for NCI puts has been the subject of much discussion in practice prior to the mandatory effective date of these standards.

In our experience, NCI puts are common in practice. We understand that current views on the appropriate accounting are mixed, and as a result we expect that there will be diversity in practice with a potentially significant impact on profit or loss.

XX's published view is that NCI puts are within the scope of IAS 39 because that standard no longer includes a scope exclusion for contingent consideration in a business combination (formerly paragraph 2(f) of IAS 39). Prior to the deletion of paragraph 2(f) of IAS 39 for periods beginning on or after 1 January 2010, we considered that accounting for changes in the carrying amount of the NCI put liability was outside the scope of IAS 39, regardless of whether the put was written as part of, or separately from, the business combination in which the parent obtained control of the subsidiary.

Consequently we allowed the following accounting policy choice in accounting for changes in the NCI put liability for an entity that has not adopted the 2008 amendments to IFRS 3, IAS 27 and IAS 39 referred to above:

- *The IAS 39 approach*. Under this approach, changes in the fair value of the liability were recognised in profit or loss.

- *The adjustment to initial accounting approach*. Under this approach, changes in the carrying amount of the liability were recognised by adjusting the carrying amount of the balancing item affected by the initial recognition of the transaction, e.g., goodwill; this excluded the effect of unwinding the discount, which was recognised in profit or loss.

Once an entity has adopted the amendment to the scope of IAS 39, we believe that the *adjustment to initial accounting approach* can no longer be supported. Accordingly, in our view, changes in the carrying amount of the NCI put liability should be recognised in profit or loss.

However, we understand that there are alternative views to allow, and in some cases to prefer or require, changes in the carrying amount of the NCI put liability to be recognised directly in equity. We understand that some would accept recognition of changes in equity only when the NCI put is written separately from the business combination in which control is obtained; others would allow such treatment also when the NCI put is written as part of the business combination in which control is obtained; others would accept it only where the exercise price is set as the fair value of the NCI at exercise date.

Supporters of recognition directly in equity emphasise that the NCI put arises from a transaction with NCI, and therefore that recognition directly in equity is appropriate, even when this is a remeasurement rather than initial recognition of the liabilities to the NCI. Some also draw an analogy to IFRIC 17 *Non-cash Distributions with Owners*, in which changes in the carrying amount of the distribution liability are recognised directly in equity.

Reasons for IFRIC to address the issue

In 2006 the IFRIC considered a request for an interpretation of whether a put or forward entered into by a parent entity, as part of a business combination, to acquire the shares held by the [non-controlling] minority interest was contingent or deferred consideration. However, the IFRIC concluded that "it could not develop guidance more quickly than it was likely to be developed in the Business Combinations project and decided not to take a project on this issue onto its agenda."

The IASB discussed the accounting for NCI puts in May 2009 as a part of its Annual Improvements project but, as reported in the May 2009 IASB Update, "the Board deferred this issue to the post-implementation review of IFRS 3 and IAS 27, to be conducted two years after their effective date."

In light of previous deliberations, we consider the resolution of this issue to be important for the comparability of financial statements. Based on our experience, the amounts involved are often material and therefore, if this issue is left unresolved, we expect to see a significant impact on comparability of reported profit or loss.

We believe that the issue is an acute one. We understand that the *adjustment to NCI* approach is the published preferred view of at least one European market regulator, and that further discussion of this issue may take place with other EU regulators in a future CESR-Fin/EECS session. Absent a view from IFRIC, divergence in practices is likely to arise as soon as IFRS 3 (2008) is implemented.

As far as we are aware, this issue is unrelated to any Board project that is expected to be completed in the near future, and the issue is sufficiently self-contained that it could be dealt with by the IFRIC on a timely basis.