



Project	Annual Improvements Project – 2008-2010 cycle
Topic	Proposed wording for final amendments – changes tracked to Bound Volume

Introduction

1. This paper sets out the proposed wording for *Annual Improvements* issues discussed and confirmed by the IFRIC at its March 2010 meeting for inclusion in the final *Improvements to IFRSs* that will be published in April 2010. It also includes, where applicable, the further amendments recommended by the IFRIC.
2. In this paper, changes are marked-up based on the text included in the Bound Volume as of 1 January 2009. New text is **underlined** and deleted text is **struck** through.
3. The issues raised in the comment letters are discussed in agenda paper 12.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

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.

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Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 27 and 32 are amended. Paragraphs 27A and 39B are added.

Presentation and disclosure

- 27 IAS 8 does not ~~deal with~~ apply to the changes in accounting policies ~~that occur when~~ an entity makes when it first adopts IFRSs or to changes in those policies until after it presents its first IFRS financial statements. Therefore, IAS 8's requirements ~~for disclosures~~ about changes in accounting policies do not apply in an entity's first IFRS financial statements.
- 27A If during the period covered by its first IFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes between its first IFRS interim financial report and its first IFRS financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b).
- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:
- (a) Each such interim financial report shall, if the entity presented an immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
 - (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described

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in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

- (c) If an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in each such interim report in accordance with paragraph 23 and update the reconciliations required by paragraphs 32(a) and (b).

Effective date

39B *Improvements to IFRSs* issued in April 2010 added paragraph 27A and amended paragraphs 27, 32 [and D8]. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

A heading is added after paragraph BC96. Paragraph BC97 is added.

This Basis for Conclusions accompanies, but is not part of, the amendments.

Presentation and disclosure

Interim financial reports

Accounting policy changes in the year of adoption

BC97 In *Improvements to IFRSs*, issued in April 2010, the Board clarified that a first-time adopter is exempt from all the requirements of IAS 8 for the interim financial report it presents in accordance with IAS 34 for part of the period covered by its first IFRS financial statements and for its first IFRS financial statements. The Board concluded that to comply with IFRS 1's requirement to explain its transition to IFRS, an entity should be required to explain any changes in its accounting policies or IFRS 1 exemptions it applied between its first IFRS interim financial report and its first IFRS financial statements. The Board decided that the most useful information it could require was updated reconciliations between previous GAAP and IFRSs.

Amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraph 30 is amended and paragraph 64B is added.

The acquisition method

Exceptions to the recognition or measurement principles

Exceptions to the measurement principle

Share-based payment awards ~~transactions~~

- 30 The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment ~~awards transactions~~ with share-based payment ~~awards transactions~~ of the acquirer in accordance with the method in IFRS 2 *Share-based Payment* at the acquisition date. (This IFRS refers to the result of that method as the 'market-based measure' of the ~~award~~ share-based payment transaction.)

Effective date and transition

Effective date

- 64B *Improvements to IFRSs* issued in April 2010 amended paragraphs 19, 30 and B56 and added paragraphs B62A and B62B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the entity first applied IFRS 3 (revised 2008).

Application guidance

In Appendix B, paragraph B56 is amended and a footnote to paragraph B56, a heading after paragraph B62 and paragraphs B62A and B62B are added.

Determining what is part of the business combination transaction (application of paragraphs 51 and 52)

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))

B56 An acquirer may exchange its share-based payment awards* (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. If the acquirer ~~is obliged to replace~~ the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. Paragraphs B57-B62 of this Standard provide guidance as to how to allocate the market-based measure. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

- (a) ~~the terms of the acquisition agreement;~~
- (b) ~~the terms of the acquiree's awards; or~~
- (c) ~~applicable laws or regulations.~~

However, in some situations, in which acquiree awards may would expire as a consequence of a business combination and, if the acquirer replaces those awards when even though it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements in accordance with IFRS 2. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this guidance, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

- (a) the terms of the acquisition agreement;
- (b) the terms of the acquiree's awards; or
- (c) applicable laws or regulations.

Equity-settled share-based payment transactions of the acquiree

B62A The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their market-based measure. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date in accordance with paragraphs 19 and 30.

* In paragraphs B56–B62 the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.

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- B62B The market-based measure of unvested share-based payment transactions is allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is allocated to post-combination service.

Basis for Conclusions on amendments to IFRS 3 *Business Combinations* (as revised in 2008)

This Basis for Conclusions accompanies, but is not part of, the amendments.

In the Basis for Conclusions, a heading after paragraph BC311 and paragraphs BC311A and BC311B are added.

Un-replaced and voluntarily replaced share-based payment transactions

- BC311A After the revised IFRS was issued, some constituents raised concerns about the lack of explicit guidance with respect to share-based payment transactions of the acquiree that the acquirer chooses to replace, even though they either are unaffected by the business combination or for which vesting is accelerated as a consequence of the business combination. In addition, some constituents were concerned that the measurement guidance for share-based payment transactions applies only to replacement awards but not to acquiree awards that the acquirer chooses not to replace. In response to those concerns, in *Improvements to IFRSs* issued in April 2010, the Board added explicit guidance in paragraphs B56 and B62A to clarify that those awards should be accounted for in the same way as acquiree awards that the acquirer is obliged to replace.
- BC311B Employee share-based payment awards might expire in the event of a business combination. When this occurs, the acquirer may choose to voluntarily grant a new award to those employees. The new award granted in such circumstances can only be for future services, because the acquirer has no obligation to the employee in respect of past services that they provided to the acquiree. Accordingly paragraph B56 of the standard requires that the whole of the market-based value of the new award is accounted for as a post-combination expense, which is recognised in accordance with IFRS 2. This accounting treatment is different from that required in circumstances when the employee share-based payment award does not expire in the event of a business combination. When an unexpired award is replaced by the acquirer, part of the market-based value of the replacement award reflects the acquiree's obligation that remains outstanding at the date of the business combination, and is accounted for as part of the consideration transferred in the business combination. The balance of the market-based value of the replacement award is accounted for as a post-combination expense for the services to be received over the period to when the replacement award vests, in accordance with IFRS 2. The accounting for the replacement of unexpired awards is the same for awards that are replaced voluntarily by the acquirer and those that the acquirer is obliged to replace because the substance is the same in both circumstances.

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Illustrative examples

A new heading is added after IE44 and paragraphs IE44A-IE44K are added.

Measurement of non-controlling interest (NCI)

Illustrating the consequences of applying paragraph 19 of IFRS 3

IE44A The following examples illustrate the measurement of NCI at the acquisition date in a business combination.

Measurement of NCI including preference Shares

IE44B TC has issued 1,000 ordinary shares and 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TC, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE44C AC acquires 800 ordinary shares of TC in exchange for CU1,200. The acquisition gives AC control of TC. The acquisition-date fair value of TC's identifiable net assets is CU1,400. The acquisition-date fair value of an ordinary share is CU1.5 and that of a preference share is CU1.2.

IE44D Paragraph 19 of IFRS 3 states that for each business combination, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquiree's recognised amounts of the identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair value, unless another measurement basis is required by IFRSs.

IE44E The non-controlling interests that relate to TC's preference shares do not qualify for the measurement choice in paragraph 19 of IFRS 3 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer must measure the preference shares at their acquisition-date fair value of CU120 (100 preference shares x CU1.2).

First variation

IE44F Suppose that upon liquidation of TC, the holders of the preference shares are entitled to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that because of those rights the acquisition-date fair value of a preference share is now CU1.6 and the fair value of an ordinary share is CU1.4.

IE44G The preference shares qualify for the measurement choice in paragraph 19 of IFRS 3. AC can choose to measure the non-controlling interests either at their acquisition date fair value of CU440 (CU1.4 x 200 ordinary shares + CU1.6 x 100 preference shares) or at their proportionate share in the acquiree's recognised amounts of the identifiable net assets of CU382 (CU1,400 x (200 ordinary shares + 100 preference shares) / (1,000 ordinary shares + 100 preference shares)).

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Second Variation

- IE44H Suppose also that TC has issued share options as remuneration to its employees. The share options are classified as equity and vested at the acquisition-date. The market-based measure of the share options in accordance with IFRS 2 *Share-based Payment* at the acquisition date is CU200. The share options do not expire on the acquisition-date and AC does not replace them.
- IE44I The share options do not represent present ownership interest and do not entitle their holders to a proportionate share of TC's net assets in the event of liquidation. Therefore, paragraph 19 of IFRS 3 requires the share-based payment transaction to be measured at its acquisition-date fair value, unless another measurement basis is required by IFRSs. Paragraph 30 of IFRS 3 states that the acquirer must measure an equity instrument related to share-based payment transactions of the acquiree in accordance with the method in IFRS 2.
- IE44J The acquirer measures the non-controlling interests that are related to the share options at their market-based measure of CU200.

Amendment to IAS 1 *Presentation of Financial Statements*

Paragraphs 106 and 107 are amended. Paragraphs 106A and 139D are added.

Structure and content

Statement of changes in equity

- 106** An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information showing in the statement:
- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
 - (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
 - (c) [deleted]
 - (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) ~~each item of~~ other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
- 106A An entity shall present an analysis for each item of information required by paragraphs 106(b) and 106(d) in the notes or in the statement of changes in equity.
- 107** An entity shall present, either in the statement of changes in equity or in the notes, the amounts of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

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Transition and effective date

139D Paragraphs 106 and 107 were amended and paragraph 106A was added by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

**Basis for Conclusions on amendment to IAS 1
*Presentation of Financial Statements***

A heading is added after paragraph BC74 and paragraph BC74A is added.

This Basis for Conclusions accompanies, but is not part of, the amendment.

Statement of changes in equity

Reconciliation for each component of other comprehensive income (paragraph 106(d))

BC74A In *Improvements to IFRSs* issued in April 2010, the Board clarified its intention in paragraph 106(d) to require a reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. The Board confirmed its intention to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income. Therefore, the Board clarified that entities are permitted to present the reconciliation requirements for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 10, 14 and 29 are amended. A footnote is added to paragraph 10. Paragraph 54A is added.

Accounting policies

Selection and application of accounting policies

- 10 In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is useful to existing and potential equity investors, lenders and other creditors in making decisions. To be useful, information shall:
- (a) ~~be relevant to the economic decision-making needs of users;~~ and
 - (b) faithfully represent the transaction, other event or condition. Faithful representation of an economic phenomenon is attained when the depiction is complete, neutral and free from error*. ~~reliable, in that the financial statements:~~
 - (i) ~~represent faithfully the financial position, financial performance and cash flows of the entity;~~
 - (ii) ~~reflect the economic substance of transactions, other events and conditions, and not merely the legal form;~~
 - (iii) ~~are neutral, ie free from bias;~~
 - (iv) ~~are prudent; and~~
 - (v) ~~are complete in all material respects.~~

* In April 2010, the Board amended the terminology in this paragraph to be consistent with the terminology used in the *Framework* issued in 2010.

Changes in accounting policies

- 14 An entity shall change an accounting policy only if the change:
- (a) is required by an IFRS; or
 - (b) results in the financial statements providing ~~reliable and~~ more relevant information ~~about that faithfully represents~~ the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Disclosure

- 29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the nature of the change in accounting policy;
 - (b) the reasons why applying the new accounting policy provides ~~reliable and~~ more relevant information that faithfully represents the effects of the transactions, other events or conditions on the entity's financial position, financial performance or cash flows;

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(c) ...

Effective date and transition

54A *Improvements to IFRSs* issued in April 2010 amended paragraphs 10, 14 and 29 and added a footnote to paragraph 10. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

**Basis for Conclusions on amendment to IAS 8
Accounting Policies, Changes in Accounting
Estimates and Errors**

A heading after paragraph BC33. Paragraph BC34 is added.
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This Basis for Conclusions accompanies, but is not part of, the amendment.

Change in terminology to the qualitative characteristics

BC34 The Board and the US Financial Accounting Standards Board are jointly developing a new conceptual framework on financial reporting. As part of that project, the boards adopted new terminology for some of the qualitative characteristics of financial reporting. IAS 8 provides guidance to preparers of financial reports in developing and applying accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the *Framework*. Because this guidance is essential to the application of IAS 8, the Board decided, in *Improvements to IFRSs* issued in April 2010, that the paragraphs that refer to the qualitative characteristics should be updated to use the new terminology.

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Transition requirements for amendments arising as a result of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) Amendments to IFRSs

IAS 21 *The Effects of Foreign Exchange Rates*

Paragraph 60B is amended and paragraph 60C is added.

Effective date and transition

- 60B IAS 27 (as amended in 2008) added paragraphs 48A–48D and amended paragraph 49. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.
- 60C Paragraph 60B was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

IAS 28 *Investments in Associates*

Paragraph 41B is amended and paragraph 41D is added.

Effective date and transition

- 41B IAS 27 (as amended in 2008) amended paragraphs 18, 19 and 35 and added paragraph 19A. An entity shall apply the amendment to paragraph 35 retrospectively and the ~~these~~ amendments to paragraphs 18, 19 and 19A prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.
- 41D Paragraph 41B was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this amendment before 1 July 2010 it shall disclose that fact.

IAS 31 *Interests in Joint Ventures*

Paragraph 58A is amended and paragraph 58C is added.

Effective date and transition

- 58A IAS 27 (as amended in 2008) amended paragraphs 45 and 46 and added paragraphs 45A and 45B. An entity shall apply the amendment to paragraph 46 retrospectively and the ~~these~~ amendments to paragraphs 45, 45A and 45B prospectively for annual periods beginning on or after 1 July 2009. If

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an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.

- 58C Paragraph 58A was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

IAS 36 *Impairment of Assets*

Paragraphs 2(h) and (i) are amended and paragraphs 2(j) and 140F are added.

Scope

- 2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**
- a ...
 - h deferred acquisition costs, and intangible assets, arising from an insurer’s contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*; ~~and~~**
 - i non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; ~~and~~**
 - j investments in subsidiaries, jointly controlled entities and associates that are accounted for at cost in the separate financial statements of the investor.**

Transitional provisions and effective date

- 140F Paragraphs 2(h) and (i) were amended and paragraph 2(j) was added by *Improvements to IFRSs* issued in April 2010. An entity shall apply the amendment prospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the related amendment in paragraphs 38 and 38D of IAS 27 for an earlier period, it shall apply the amendment in this Standard at the same time.

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Amendment to IFRIC 13 *Customer Loyalty Programmes*

Paragraph 10A is added.

Effective date and transition

10A Paragraph AG2 was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

In the Appendix, paragraph AG2 is amended.
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AG2 An entity may estimate the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The fair value of ~~these awards would be reduced to take~~ the award credits takes into account:

- (a) for example the amount of the discounts or incentives fair value of awards that would otherwise be offered to customers who have not earned award credits from an initial sale; and
- (b) the proportion of award credits that are not expected to be redeemed by customers.

If customers can choose from a range of different awards, the fair value of the award credits will reflect the fair values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

Amendment to illustrative examples accompanying IFRIC 13

Paragraph IE1 is amended. Paragraphs IE2–IE5 are not proposed for amendment but are included here for ease of reference.
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Example 1 – Awards supplied by the entity

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management estimates the fair value of groceries for which each loyalty point can be redeemed to be 1.25 currency units (CU1.25). This amount takes into account an estimate of the discount that management expects would otherwise be

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offered to customers who have not earned award credits from an initial sale. In addition, mManagement expects only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the value of each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × CU1.25 = CU1). Accordingly, mManagement estimates the fair value of each loyalty point to be one currency unit (CU1), and defers recognition of revenue of CU100.

Year 1

- IE2 At the end of the first year, 40 of the points have been redeemed in exchange for groceries, ie half of those expected to be redeemed. The entity recognises revenue of $(40 \text{ points}/80^1 \text{ points}) \times \text{CU}100 = \text{CU}50$.

Year 2

- IE3 In the second year, management revises its expectations. It now expects 90 points to be redeemed altogether.
- IE4 During the second year, 41 points are redeemed, bringing the total number redeemed to $40^2 + 41 = 81$ points. The cumulative revenue that the entity recognises is $(81 \text{ points}/90^3 \text{ points}) \times \text{CU}100 = \text{CU}90$. The entity has recognised revenue of CU50 in the first year, so it recognises CU40 in the second year.

Year 3

- IE5 In the third year, a further nine points are redeemed, taking the total number of points redeemed to $81 + 9 = 90$. Management continues to expect that only 90 points will ever be redeemed, ie that no more points will be redeemed after the third year. So the cumulative revenue to date is $(90 \text{ points}/90^4 \text{ points}) \times \text{CU}100 = \text{CU}100$. The entity has already recognised CU90 of revenue (CU50 in the first year and CU40 in the second year). So it recognises the remaining CU10 in the third year. All of the revenue initially deferred has now been recognised.

¹ total number of points to be redeemed

² number of points redeemed in year 1

³ revised estimate of total number of points expected to be redeemed

⁴ total number of points still expected to be redeemed.

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Basis for Conclusions on amendment to IFRIC 13 *Customer Loyalty Programmes*

A heading is added after paragraph BC14 and paragraph BC14A is added.

This Basis for Conclusions accompanies, but is not part of, the amendment.

Measuring the fair value of award credits

BC14A The Board was made aware that paragraph AG2 could be interpreted to mean that the fair value of redemption awards is equal to the fair value of award credits because the term ‘fair value’ is used to refer to both the value of the award credits and the value of the awards for which the credits could be redeemed. To address this, the Board amended paragraph AG2 and Example 1 in the illustrative examples in *Improvements to IFRSs* issued in April 2010. The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the value of the awards for which they could be redeemed must be adjusted to reflect expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

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