Project: **Annual Improvements Project – 2008-2010 cycle**

Topic: **Proposed wording for final amendments – changes tracked to exposure draft**

Introduction

1. This paper sets out the proposed wording for *Annual Improvements* issues discussed and confirmed by the IFRIC at its meeting in March 2010 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. This paper presumes all changes proposed in the exposure draft published in August 2009 were accepted and **only shows incremental changes newly recommended by the IFRIC** based on an analysis of the comment letters received. Incremental new text is **double underlined** and incremental deleted text is **double struck** through.

3. The issues raised in the comment letters are discussed in agenda paper 12.

~~Proposed~~ 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 apply to the changes in accounting policies an entity makes when it adopts IFRSs or to changes in those policies until after it presents its first IFRS financial statements. Therefore, IAS 8's requirements 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 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 ~~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 in each such interim report in accordance with paragraph 23 and update the reconciliations required by ~~this~~ 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 ~~proposed~~ 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 ~~proposed~~ amendments.

Accounting policy changes in the year of adoption

BC97~~1~~ In *Improvements to IFRSs*, issued in April 2010, ~~T~~the Board ~~received a request to~~ clarif~~y~~ied ~~whether~~ 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 ~~annual periods presented in~~for its first IFRS financial statements. ~~If IAS 8 does not apply, the Board was asked what, if any, requirements apply when an entity changes its accounting policies between the first interim financial statements it presents in accordance with IFRSs and its first annual~~IFRS ~~financial statements. A similar question arises with respect to changes an entity might make in the IFRS 1 exemptions it chooses to apply.~~ 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.

~~BC2 The Board noted that IFRS 1 requires an entity to explain how transition from a different accounting framework to IFRSs affected its reported financial position, results and cash flows. In particular, IFRS 1 requires reconciliations of profit or loss and of equity reported under previous GAAP to those under IFRSs at both the date of transition to IFRSs and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP. If an entity presents interim financial reports in accordance with IAS 34, its first interim financial report for part of the period covered by its first IFRS financial statements must include those reconciliations.~~

~~BC3 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 annual 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 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 transactions with share-based payment 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 share-based payment transaction.)

Effective date and transition

Effective date

64~~A~~B *Improvements to IFRSs* issued in April 2010 amended paragraphs 19, ~~the heading before paragraph 30 and paragraphs~~ 30, and B56 and added paragraphs B62A and B62B~~ and added a new heading after paragraph B62 and paragraphs B62A, B62B, C3A, C7A and C13A~~. 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 ~~replaces 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.~~

~~The acquirer shall apply the principles in paragraphs B57–B62 in accounting for acquiree awards it chooses to replace in a business combination as well as those it is obliged to replace.~~ However, in ~~some~~ situations~~,~~ in which acquiree awards ~~may~~ would expire as a consequence of a business combination and~~. I~~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 s~~S~~hare-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 ~~fair~~

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

~~value~~ 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.

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 ~~proposed~~ amendments to IFRS 3 *Business Combinations* (as revised in 2008)

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

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

Un-replaced and voluntarily replaced share-based payment ~~awards~~ transactions

BC~~2~~311A After the revised IFRS was issued, some constituents raised concerns about the lack of explicit guidance with respect to share-based payment ~~awards~~ 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 ~~awards~~ 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 ~~proposes to~~ 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.

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)).

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.

~~Proposed~~ 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 or in the notes~~:

(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 amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share ~~of dividends recognised as distributions to owners~~.

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 ~~proposed~~ 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 ~~proposed~~ amendment.

Statement of changes in equity

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

BC74A~~1~~ In *Improvements to IFRSs* issued in April 2010, t~~T~~he Board ~~was asked to~~clarified~~y~~ 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. ~~Some respondents believed this requirement was excessive. In addition, some pointed out an inconsistency between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the guidance on implementing IAS 1 Part I: Illustrative presentation of financial statements.~~ The Board confirmed its intention to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income. Therefore, the Board ~~proposes to~~ clarif~~y~~ied 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.

~~BC2~~ ~~The Board also proposes to amend paragraph 107 in IAS 1 to remove a redundancy based on the amendment to paragraph 106(d).~~

~~Proposed~~ 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; 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*.

* In April 2010, the Board amended the terminology in this paragraph to be consistent with the terminology used in the *Framework* issued in ~~2009~~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 more relevant information 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 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;

(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 ~~proposed~~ amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

A heading after paragraph BC33. Paragraph BC34 is added.

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

Change in terminology to the qualitative characteristics

BC~~1~~34 As part of the Board's and the US Financial Accounting Standards Board's joint development of a new conceptual framework on financial reporting, 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.

~~BC2 The Board also decided to review and update other IFRSs to use the new terminology when those IFRSs are being amended for other reasons.~~

~~Appendix to proposed amendments to IAS 27~~Transition requirements for amendments arising as a result of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)
Amendments to ~~other~~ 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. ~~If an entity applies the amendment before 1 July 2010 it shall disclose that fact.~~

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 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 amendments to paragraphs 45, 45A and 45B 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.

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*;

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.

~~Basis for Conclusions on proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*~~

~~Transitional provisions (2008 amendments)~~

~~BC4 In the second phase of the Board's project on business combinations, the Board made consequential amendments to other standards. Some of those amendments are silent on transition. Paragraph 19 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective application for amendments that do not provide specific transition guidance.~~

~~BC5 In *Improvements to IFRSs* issued in April 2010, tThe Board decided that an entity should apply some of the consequential amendments to other standards prospectively. The Board therefore proposes to amend paragraph 60B of IAS 21, paragraph 41B of IAS 28 and paragraph 58A of IAS 31 to require prospective application.~~

~~Proposed~~ 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.

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 the award credits takes into account:

(a) for example the amount of the discounts or incentives ~~value of awards~~ that would be otherwise 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.

~~Proposed~~ 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.

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 ~~that~~ each loyalty point can be redeemed ~~for~~ to be 1.25 currency units (CU1.25). This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale.

In addition, m~~M~~anagement 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, management 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 points/80[1] points) × CU100 = CU50.

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 points/90[3] points) × CU100 = CU90. 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 points/90[4] points) × CU100 = CU100. 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.

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[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.

Basis for Conclusions on ~~proposed~~ 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 ~~proposed~~ 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 ~~proposes to~~ amended paragraph AG2 and Example 1 in the illustrative examples in *Improvements to IFRSs* issued in April 2010. The amendment ~~to~~ clarifies~~y~~ 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.