

No. 16 / May 2001

The Standing Interpretations Committee (SIC) met on 9, 10 and 11 May in Melbourne, when it:

- reaffirmed the consensus in SIC-D27;
- agreed a tentative consensus on agenda items relating to barter transactions, costs of developing web sites and disclosure of service concession arrangements;
- continued its discussion of five other agenda items and preliminarily concluded on some aspects of translation from a measurement currency to a presentation currency, transactions among enterprises under common control, consideration of potential voting rights, classification of financial instruments issued with put options, and calculating basic earnings per share;
- discussed some scope issues associated with SIC-12; and
- considered a paper from Staff addressing the debt vs. equity classification of preference shares.

- represent an enterprise's predominant source of advertising revenue;
- involve cash and/or another form of consideration (e.g. marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
- do not involve the same counterparty as in the barter transaction.

While the Committee decided not to explicitly expand the scope of the issue to all barter transactions, it believes that the consensus may be useful to consider in other circumstances.

## • *Intangible Assets - Web Site Costs*

Enterprises are incurring costs in developing web sites for their own use. The SIC reached a tentative consensus that:

- a web site is an internally generated intangible asset that is subject to the requirements of IAS 38;
- the Planning stage is similar in nature to the research phase and IAS 38.42 applies to expenditures incurred in this stage;
- the Infrastructure Development, Graphical Design and Content Development stages (to the extent that an asset separate from the web site is not created) are similar in nature to the development phase and IAS 38.45 applies to expenditures incurred in this stage;
- the Operating stage commences once the web site is available for use and IAS 38.60 applies; and
- an enterprise may be able to demonstrate how a web site will generate probable future economic benefits under IAS 38.45(d) using the principles in IAS 36. This includes situations where a web site is developed solely or primarily for promoting and advertising an enterprise's own products.

## Draft Interpretation

### • *Transactions in the Legal Form of a Lease and Leaseback (SIC-D27)*

The SIC finished discussing the comments received in response to SIC-D27, including comments received from the Board. The Committee reaffirmed its consensus, and plans to redraft the document to focus upon the principles.

## Tentative Consensus

### • *Revenue - Barter Transactions Involving Advertising*

Some enterprises enter into transactions to provide advertising in exchange for advertising provided by their customers. When services are rendered in exchange for dissimilar services, IAS 18 requires revenue to be recognised when, amongst other criteria, the amount of revenue can be measured reliably. The SIC reached a tentative consensus that the fair value of advertising received or provided in a barter transaction can be reliably measured only by reference to non-barter transactions that:

- involve advertising similar to the advertising involved in the barter transaction;
- occur frequently;
- are expected to continue occurring after the barter transaction;

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**IASB Publications Department, 7th Floor,  
166 Fleet Street, London EC4A 2DY, United Kingdom  
Tel: +44 (020) 7427-5927 Fax: +44 (020) 7353-0562  
E-Mail: [publications@iasb.org.uk](mailto:publications@iasb.org.uk)  
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The Committee also reached a tentative consensus that developing a web site is not a start-up activity to the extent that an internally generated intangible asset is created. While the SIC believes that IAS 38.51 applies to an expenditure related to developing a web site that is, in substance, a customer list, it does not believe guidance is necessary on this issue.

#### ● *Disclosure - Service Concessions*

Service concession arrangements are arrangements between enterprises that result in the provision of services by a private sector enterprise of the type normally considered public services. Having previously agreed that it could not pursue the accounting treatment, the Committee discussed possible disclosure requirements for such arrangements. Examples of service concessions involve water treatment and supply facilities, motorways, bridges, and airports. Examples of arrangements that are not service concessions involve an enterprise outsourcing its internal services (e.g. employee cafeteria and information technology functions).

The SIC reached a tentative consensus that a Concession Operator and Concession Provider should disclose, in addition to the requirements of other IASs, the following in each period that the arrangement exists:

- a description of the arrangement;
- terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g. contractual repricing dates);
- the nature and extent (e.g. quantity, time period or amount as appropriate) of:
  - transferred rights to use assets;
  - obligations to provide services;
  - obligations to acquire or build items of property, plant and equipment;
  - obligations to deliver assets at the end of the concession period;
  - renewal options;
  - other rights and obligations (e.g. major overhauls); and
- changes in the arrangement occurring in each period.

## Agenda Items

The following agenda items were discussed and will be considered for inclusion in the potential Board Improvements Project, another project to be determined by the Board upon finalisation of its agenda, or future SIC activities.

#### ● *Business Combinations - Transactions Among Enterprises Under Common Control*

IAS 22 does not deal with "transactions among enterprises under common control" in its scope. The Committee continued its discussion of circumstances when a transaction might be such a transaction, and plans to seek the Board's input on certain aspects.

#### ● *Reporting Currency – Translation from Measurement Currency to Presentation Currency*

In addressing the issue of how to translate financial statements from a measurement currency to a presentation currency, SIC-19 requires that "...the translation method applied by an enterprise should not lead to reporting in a manner that is inconsistent with the measurement of items in the financial statements ....". The SIC continued its discussion of how to translate financial statements from a measurement currency to a different currency for presentation purposes, and most members supported the following approach:

- translate assets and liabilities at the closing rate existing at the date of each balance sheet presented, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case translate assets and liabilities for all balance sheets presented at the closing rate existing at the date of the most recent balance sheet presented;
- translate income and expense items at the exchange rates existing at the dates of the transactions, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case translate income and expense items for all periods presented at the closing rate existing at the end of the most recent period presented; and
- classify all resulting exchange differences as equity.

The Committee also discussed how an enterprise should display additional information that is not required by IASs and which is displayed in a currency other than the presentation currency as a convenience to certain users. The SIC did not specify a translation method but agreed that an enterprise should clearly identify this information (i.e. as supplemental information) to distinguish it from information required by IASs and disclose the translation methodology used.

#### ● *Consolidation/Equity Method - Potential Voting Rights*

IAS 27 requires a parent that issues consolidated financial statements to consolidate investees that it controls. IAS 28 requires an investee that is significantly influenced to be accounted for using the equity method. The SIC discussed whether the existence of potential voting rights (e.g. share options) should be considered when determining whether control or



significant influence exists, and preliminarily concluded that such rights, if presently exercisable, should be considered. The Committee discussed various circumstances when potential voting rights indicate control or significant influence, and plans to consider these circumstances further.

- *Financial Instruments - Issuance with a Put Option Exercisable at the Instrument's Fair Value*

Some financial instruments carry a feature that give the holder of the instrument the right to put it back to the issuer for cash equal to the fair value of the instrument at the date when the put is exercised. For example, units in mutual funds may be redeemed for the fair value of the holder's pro rata share of the residual interest in the enterprise. The SIC preliminarily concluded that such instruments should be classified as liabilities and measured at their exercise price – the amount of cash to be delivered upon exercise of the option.

- *Earnings Per Share - Preference Dividends*

When calculating basic earnings per share, IAS 33 requires preference dividends to be deducted from the net profit or loss for the period. The SIC discussed whether any difference between the fair value of the consideration given by an enterprise to acquire its own preferred shares and the carrying amount of those shares represents a preference dividend. The Committee preliminarily concluded that a premium or a discount on a buy-back represents a preference dividend.

## Potential Agenda Items

- *SIC-12 – Consolidation – Special Purpose Entities*

The Committee discussed some scope issues and recent developments arising from the application of SIC-12. The Committee agreed to consider certain aspects further.

- *Leases – Indefeasible Right of Use of Assets*

The Committee did not discuss this topic.

**Next Meeting** – The next SIC meeting will be held on 6 and 7 August 2001 in London, but the length of it may be reduced depending on the agenda. Future SIC meeting dates and locations will likely be scheduled to coincide with Board meetings, and will likely be posted to the IASB homepage by the end of June 2001. The tentative agenda and additional details will be posted to the IASB homepage at [www.iasb.org.uk](http://www.iasb.org.uk) prior to the meeting.

## Other Item Discussed

Paragraph A21 of the Appendix to IAS 32 states that when distributions to holders of preferred shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments.

The Committee considered a paper from Staff that addresses the debt vs. equity classification of preference shares. The Committee agreed with the following Staff conclusions:

- insufficient profits and/or reserves that prevent an enterprise from declaring and paying a dividend on a preference share (or redeeming a preference share), and a directors inability to satisfy fiduciary duties are other examples of restrictions under IAS 32.20 that do not negate a conclusion that a preference share might otherwise be classified as a liability;
- mandatory redemption or redemption at the option of the holder a long time (e.g. fifty years) after issuance of a preference share does not negate a conclusion that a preference share might otherwise be classified as a liability;
- the following factors do not affect whether a dividend on a preference share is discretionary and consequently do not affect an instrument's classification:
  - an enterprise's ability to control the amount of its net profit or loss;
  - an enterprise's history of distributing dividends or its intent to declare dividends in the future on its preference shares (due to a possible negative impact on the price of its ordinary shares if it were not to declare dividends on the preference shares); and
  - the amount of accumulated profits / (losses) or an enterprise's expectation of profits.

These conclusions may be incorporated into either the Board's Improvements Project or the output related to the classification issue above – Financial Instruments Issued with a Put Option Exercisable at the Instrument's Fair Value.