NEWSLETTER OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE

IASB IFRIC UPDATE

August 2005

The International Financial Reporting Interpretations Committee met in London on 1 and 2 August 2005, when it discussed:

- Service concession arrangements
- IAS 34 – Interaction with IAS 36 and IAS 39
- Employee Benefits – D9: Measurement options
- Employee Benefits: Distinction between defined benefit and defined contribution plans, and allocation of future salary increases
- IFRIC agenda decisions
- Tabled agenda proposals

Service concession arrangements

The IFRIC considered a staff analysis of comments received on the three draft Interpretations:

- D12 *Service Concession Arrangements – Determining the Accounting Model*
- D13 *Service Concession Arrangements – The Financial Asset Model*
- D14 *Service Concession Arrangements – The Intangible Asset Model*

The draft Interpretations and comment letters are available at www.iasb.org.

The discussion focused on the overall direction of the project and on the first of the draft Interpretations. The IFRIC intends to discuss at future meetings the remaining points raised by respondents.

Overall direction of the project

The IFRIC noted that respondents' views differed on the overall direction of the project. Some were keen that Interpretations should be issued as quickly as possible, perhaps as an interim measure, because they believed that there was a pressing need for timely guidance. However, nearly all respondents expressed concern about fundamental aspects of the proposals, some urging that the project should be passed to the IASB to develop a comprehensive standard.

The IFRIC considered these comments. Some members said that, with the benefit of hindsight, the topic might have been better suited to an IASB project. However, in general, members believed that, with its limited scope project, the IFRIC was better placed than the IASB to deal with the pressing issues in a timely way. They acknowledged that certain aspects of the proposals should be revisited and observed that respondents' concerns over the limited scope could be addressed through improved communication. Accordingly, the IFRIC decided to continue its work on the project.

The IFRIC acknowledged that it was unlikely to publish Interpretations before the end of 2005. It might therefore be desirable to issue an interim Interpretation that would (a) clarify how existing standards apply to service concession arrangements and (b) identify practices that could not be continued under IFRSs.

Recognition of property, plant and equipment

The IFRIC considered respondents' comments on the proposed requirements relating to recognition of property, plant and equipment.

D12 had proposed that an operator should not recognise service concession infrastructure as its property, plant and equipment if (in summary):

- the grantor controlled the services that the operator must provide with the infrastructure;
- the grantor controlled the residual interest in the infrastructure at the end of the concession, and the residual interest would be significant; and
- the infrastructure was either (a) constructed or acquired for the purpose of the concession, or (b) existing infrastructure of the *grantor*, made available to the operator for the duration of the concession.

The IFRIC noted that some respondents had criticised the proposals for their narrow scope, ie for not specifying the accounting treatment required when the criteria above were not met, and not specifying accounting by the grantor.

The IFRIC decided that it should explain better the reasons for the scope restrictions — in particular, that the draft Interpretations had concentrated on situations for which existing accounting standards did not give a clear answer. It also decided that it should add pointers to the relevant standards for some of the situations that were not within the scope of the draft Interpretations. It should, for example, identify the applicable requirements for existing infrastructure of the *operator*, and highlight that, for infrastructure outside the proposed scope of D12, it may be appropriate for the operator to recognise the property, plant and equipment.

The IFRIC also noted that, while a significant minority of respondents had supported the proposal that the operator should not recognise the infrastructure when the criteria listed above were met, the majority had opposed or at least questioned those criteria. Most of those respondents had suggested that the recognition criteria should be based on, or at least include, an analysis of the extent to which each party bore the risks and rewards of ownership. They argued that such an approach would be more consistent with the requirements of other accounting standards and would

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ISSN 1477-206X

acknowledge exposure to risk as one of the factors indicating control of an asset. Some respondents had asked why service concession arrangements were not regarded as leases to which IAS 17 *Leases* would apply: the criteria in IFRIC 4 *Determining whether an Arrangement contains a Lease* suggested that leases could be present in service concession arrangements.

The IFRIC reconsidered the issues giving rise to these comments, in particular:

- the scope condition that a significant residual interest must be retained by the grantor; and
- the proposal that the entity that should recognise the infrastructure as its own property, plant and equipment should be determined by reference to 'control of use' rather than by the IAS 17 principle of 'risks and rewards'.

While agreeing to research these aspects further, most IFRIC members were not persuaded that the proposals should be changed. Their view remained that, for service concession arrangements within the scope of the draft Interpretations, the grantor's ability to control the use of the infrastructure throughout the concession and its control of the residual infrastructure at the end were such an overpowering indicator of control that the infrastructure should not be recognised as property, plant and equipment of the operator.

Some members suggested that the transfer of residual test could be viewed as a proxy for a risks and rewards analysis, because control of a significant residual would expose the grantor to significant risks and rewards in that infrastructure's residual value. IFRIC members also expressed a desire to reconsider whether the application of the financial asset model (D13) or the intangible asset model (D14) should incorporate more of a demand risk approach, which might mitigate some of the concerns about the control-based focus of D12's scope criteria. However, another member questioned whether the significant residual test was appropriate, as that member believed that the same approach should be applied to service concession arrangements that spanned the entire life of the infrastructure.

Another issue that the IFRIC wished to explore further was whether the users and the grantor should be regarded as separate parties in all instances.

The IFRIC also acknowledged that the reasons for not applying IAS 17 or otherwise taking a 'risks and rewards' approach had not been adequately explained in the Bases for Conclusions of the draft Interpretations. It directed the staff to prepare additional text to explain the reasons more fully.

Sale and repurchase agreements

During the course of developing the draft Interpretations on service concessions, the IFRIC had reached the conclusion that a transaction that took the form of a sale and leaseback should not be accounted for as such if it also incorporated a repurchase agreement. The reason was that the seller/lessee would retain effective control of the asset by virtue of the repurchase agreement. Hence the criteria for recognising a sale (which are set out in paragraph 14 of IAS 18 *Revenue*) would not be met. The IFRIC had noted at the time that this conclusion would apply more widely than to service concession arrangements and that it should, if retained, be the subject of a separate Interpretation.

Several respondents queried the conclusion and referred to the wider ramifications. The IFRIC noted their comments and decided to reconsider the arguments at a future meeting.

Determination of the appropriate accounting model

Lastly, the IFRIC considered respondents' comments on the proposed requirements relating to the determination of the appropriate accounting model.

D12 set out the criteria for determining the nature of the operator's asset (ie financial or intangible) if it is not property, plant and equipment. It proposed that, if the operator provides infrastructure or other consideration in exchange for the right to the service concession, one of two accounting models should be applied to the rights received by the operator:

- the financial asset model—the operator recognises a financial asset; or
- the intangible asset model—the operator recognises an intangible asset.

The financial asset model, which is described in draft Interpretation D13, applies if the grantor (rather than users) has the primary responsibility to pay the operator for the concession services. The intangible asset model, which is described in draft Interpretation D14, applies in all other cases.

The IFRIC noted that the boundary between the two models gave rise to much criticism. Respondents believed that the distinction between the two models was inconsistent with the stated objective of classification based on the substance of the arrangement. Respondents also were concerned that the dividing line was too rigid and were unsure how to apply the guidance to arrangements that had elements of both models. Most respondents had opposed the proposal that classification should depend only on who paid the operator. They had suggested that, instead, the criterion should be based on, or at least include, an analysis of the extent to which each party bore demand risk. They argued that the proposed approach did not reflect the economic substance of service concessions and, as a result, arrangements that were similar in economic terms would have very different accounting treatments. For example, a road operator would recognise a financial asset if it were to receive 'shadow tolls' from the grantor but an intangible asset if it were to receive tolls paid by users.

The IFRIC considered these comments. Some members stated that they, like several respondents, would prefer one model; however, they believed that it was not possible to achieve this under existing standards. Some members reaffirmed their view that the proposal to apply the financial asset model if the grantor had the primary responsibility to pay the operator for the concession services was an appropriate interpretation of existing standards. However, those members acknowledged the concern that very similar obligations would then be accounted for differently and that the focus on the identity of the payer could invite manipulation. Accordingly, the IFRIC decided that the boundary between the financial and the intangible asset models should be reconsidered.

The IFRIC gave initial consideration to two staff proposals, both of which the staff noted would require further development. The proposals would serve to redraw the dividing line between the two models by changing D12 to:

- take a broader view of when the grantor is responsible for payment; and
- analyse the different kinds of asset resulting from the construction phase.

The first staff proposal recommended that the operator should recognise a financial asset due from the grantor, to the extent that the grantor has provided an assurance of a minimum return or a topping-up of collections from users. It suggested that it was wrong to characterise the top-up arrangements or assurances of a minimum return that feature in concession contracts as financial guarantees in the sense in which those are dealt with in the financial instruments standards. The forthcoming Amendments to IAS 39 and IFRS 4 define a financial guarantee contract as follows:

> ' A *financial guarantee contract* is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. '

The staff suggested that top-up payments and assurances of a minimum return given by a grantor to an operator would not fall under such a definition. When such assurances existed, fees or tolls received directly from users could be viewed as essentially no more than collections on behalf of the grantor. If that argument were accepted, all such arrangements would be encompassed within the financial asset model.

The second staff proposal examined the different kinds of asset resulting from the construction phase. It suggested that expected returns subject to demand risk should be classified as an intangible asset but returns subject to other risks (eg performance or availability risk) should be classified as a financial asset. In both cases, any fixed component should be treated as a receivable.

IFRIC members expressed a range of views. Some supported the idea of moving arrangements with a fixed or determinable return towards the financial asset model. One member said that a contract in which assurances of a minimum return were given by a grantor to the operator was in substance a finance arrangement. Some members were concerned that an Interpretation that in certain circumstances would require a single contract to be accounted for partly under one model and partly under another could be difficult to apply in practice. They acknowledged, however, that the complexities in some concession arrangements might require some such solution. One member expressed concern that the changes were not faithful to existing IFRSs, in particular the definitions set out in IAS 32 and IAS 39. The staff were directed to research the issues further and to develop the proposals for consideration at a future meeting.

IFRIC members also noted concerns raised in comment letters about the application of IAS 39 for subsequent accounting for any financial asset recognised under D13. IFRIC members expressed a desire to reconsider the guidance provided on the application of IAS 39, and especially current practice under IAS 11 for construction contract receivables.

IAS 34 – Interaction with IAS 36 and IAS 39

The IFRIC considered a possible inconsistency between IAS 34 *Interim Financial Reporting*, IAS 36 *Impairment of Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*.

IAS 34 states that the frequency of an entity's reporting (eg annual, half-yearly, or quarterly) should not affect the measurement of its annual results. However, IAS 36 and IAS 39 prohibit the reversal of impairment losses for equity instruments and goodwill. The IFRIC considered whether measurement of an entity's annual results is affected by such an impairment loss recognised in an interim period.

The staff presented three alternative views to the IFRIC in relation to impairments recognised on the above-mentioned assets:

- Assess and recognise impairment at interim reporting dates, with no reversal permitted in annual results. The frequency of reporting therefore can be viewed as affecting the measurement of annual results.
- Assess and recognise impairment at interim reporting dates, with reversal permitted in annual results. The frequency of reporting does not affect the measurement of annual results.
- Assess and recognise impairment as it occurs regardless of how often the entity reports. Any effect on the measurement of annual results is therefore not caused by the frequency of reporting.

The IFRIC noted that the requirements of IAS 34 might also have additional implications for the revaluation of assets in IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 40 *Investment Properties*, and the reassessment of certain liabilities in IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

The IFRIC decided that this item should be taken onto its agenda. The staff was directed to consider when assessments of impairment should be made and whether the frequency of reporting affects the measurement of an entity's annual results. The IFRIC suggested that the paper should focus on the apparent conflict between, on the one hand, IAS 34 (regarding frequency of reporting) and, on the other hand, IAS 36 (regarding goodwill), and IAS 39 (regarding 'available for sale' equity instruments). IFRIC members did not support developing an approach that would require review for impairment on a constant basis.

The IFRIC asked the Agenda Committee to consider whether IAS 34 had implications for the asset revaluation and liability reassessment requirements of other Standards.

Employee Benefits - IFRIC D9: Measurement Options

The staff presented a summary and comparison with examples of four proposed approaches for the measurement options available in respect of plans within the scope of IFRIC D9 (broadly, plans with a minimum return guarantee).

- the fixed/variable approach proposed in D9;
- a modified fixed/variable approach;
- a pure deconstruction approach, which would require an amendment to IAS 19; and
- a modified version of the deconstruction approach that staff believed was compliant with IAS 19.

The approaches were compared against three criteria:

- applicability to the wide range of plans that fall within the scope of D9;
- consistency with the standard; and
- faithful representation of the entity's defined benefit obligation.

The staff found the fixed/variable and modified fixed/variable approaches inadequate to give a faithful representation of the entity's obligation for more complex benefit structures. They believed that some aspects of the fixed/variable approach in D9 were not fully consistent with IAS 19.

Staff members believed that the pure deconstruction approach gave a result that was a faithful representation of the entity's obligation across a wide range of plans (including very complex plans) and gave consistent results. However, this approach would require an amendment to IAS 19 in respect of the components of the pension cost.

The modified deconstruction approach also allowed for more complex plans and the staff believed that it was consistent with IAS 19 but was a less faithful representation of the nature of the entity's obligation than the pure deconstruction approach.

The staff considered that the most appropriate approach would be the pure deconstruction approach and recommended that the correct treatment for D9 plans should be determined as part of an IASB project. If the IASB declined to undertake this task, the IFRIC should pursue the modified deconstruction approach. An IFRIC member noted that many of the problems that the IFRIC was trying to address stemmed from the fact that IAS 19 seemed to require for certain D9 plans that the liability should be calculated by projecting forward asset growth based on an expected long-term rate of return and discounting back to present value based on a low risk borrowing rate. It was suggested that the staff should consider whether many of the most pressing concerns could be addressed by a limited amendment to IAS 19 to permit a single, consistent rate to be used for measurement of such plans. It was noted that such an amendment would be far more limited conceptually than the introduction of a deconstruction approach. Staff members expressed concern that such a change would not be a significant improvement in the accounting model.

The IFRIC agreed to consider the extent of diversity in practice in respect of D9 plans before determining whether it should recommend the project to the IASB. The IFRIC did not determine what its approach would be if the IASB decided against taking this project onto its agenda.

Employee Benefits: Distinction between defined benefit and defined contribution plans, and allocation of future salary increases

The staff presented a draft Interpretation, which proposed that the distinction between a defined benefit and defined contribution plan should be determined by reference to whether an employer would have an obligation in respect of future risks attaching to the benefits earned at the balance sheet date if an employee:

- stays in employment,
- retains plan membership; and
- stops accruing future service in the plan.

The draft Interpretation proposed further that the same basis should be used to determine whether and how to allocate future salary increases to the measurement of the entity's defined benefit obligation.

The IFRIC agreed that evaluating whether the employer had risk but holding those three conditions constant provided a good basis for distinguishing between defined benefit and defined contribution plans and determining the allocation of future salary increases.

The IFRIC asked for the draft Interpretation to be amended to clarify the effects on career average plans of requirements for compulsory plan membership and insurance arrangements. It also suggested further amendments to the illustrative examples and the treatment of plans with interdependent defined benefit and defined contribution components.

The staff will present a revised draft Interpretation at a future meeting.

IFRIC agenda decisions

The following explanations are provided for information only, and do not change existing IFRS requirements. Interpretations of the IFRIC are determined only after extensive deliberation and due process, including a formal vote by written ballot. IFRIC Interpretations become final only if a majority of the IASB does not object to their issue.

A historical record of these decisions can be found on the IASB Website at http://www.iasb.org/current/ifric_non_agenda.asp:

List A Approved as proposed

IAS 12 Non-amortisable intangible assets

List B Approved with modified wording

IAS 7 Value added tax

IAS 17 Recognition of operating lease incentives under SIC-15

IAS 37 Obligations to repair/maintain another entity's property, plant and equipment

IAS 38 Regulatory asset

IAS 39 Meaning of delivery

List C Deferred

The issue summary and recommendation for these issues were published in the June and April 2005 editions of IFRIC *Update*, respectively.

IAS 11 Classification of contract assets

This issue was deferred until further progress is made on the service concession project.

IAS 39 Accounting for securities sold but not yet purchased (short trading)

The IFRIC considered submitting the issue to the IASB. Proposed wording for the submission will be considered at a future IFRIC meeting.

List A - Approved as proposed

The following agenda decision was approved by the IFRIC, as published in the April 2005 IFRIC Update.

IAS 12 Non-amortisable intangible assets

The IFRIC considered whether to develop guidance on various issues arising from the application of IAS 12 to non-amortised intangible assets, including the question of what tax rate should be applied to calculate deferred tax on intangible assets that are no longer to be amortised because of changes to accounting standards. The IFRIC also considered the relevance of SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*.

The IFRIC decided not to develop an Interpretation on this topic because the issues fell within the scope of the IASB's short-term convergence project with the FASB. An exposure draft is expected later this year.

In response to concerns that the IAS 8 hierarchy requires an analogy to be made to the requirements of SIC-21 in all situations involving assets measured at fair value, the IFRIC noted that SIC-21 has a limited scope that does not address this particular issue.

List B - Approved with modified wording

The IFRIC made substantive changes to the wording of the proposed reasons for rejection of the following issues. The final approved text is below:

IAS 7 Value added tax

The IFRIC considered whether it should add to its agenda a project to clarify whether cash flows reported in accordance with IAS 7 *Cash Flow Statements* should be measured as inclusive or exclusive of value added tax (VAT). There was evidence that different practices will emerge, the differences being most marked for entities that adopt the direct method of reporting cash flows.

IAS 7 does not explicitly address the treatment of VAT. The IFRIC noted that it would be appropriate in complying with IAS 1 *Presentation of Financial Statements* for entities to disclose whether they present their gross cash flows as inclusive or exclusive of VAT.

The IFRIC decided that it should not develop an Interpretation on this topic, because while different practices may emerge, they are not expected to be widespread. The IFRIC will recommend to the IASB that the treatment of VAT should be considered as part of the review of IAS 7 being carried out within the project on performance reporting.

IAS 17 Recognition of operating lease incentives under SIC-15

The IFRIC considered the appropriate period over which to recognise an incentive for an operating lease, when an incentive is provided and the lease contains a clause that requires rents to be repriced to market rates.

Two possible approaches for the period over which to recognise the incentive are:

- recognise the incentive over the full term of the operating lease; or
- recognise the incentive over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rentals will be payable.

The IFRIC noted that SIC-15.5 requires:

> the lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The IFRIC thought the wording of SIC-15.5 was clear and did not accept an argument that the lease expense of a lessee after an operating lease repriced to market ought to be comparable with the lease expense of an entity entering into a new lease at that same time at market rates. Nor did the IFRIC believe that the repricing of itself would be representative of a change in the time pattern referred to in SIC-15.5.

The IFRIC decided not undertake a project to modify SIC-15.

IAS 37 Obligations to repair/maintain another entity's property, plant and equipment

The IFRIC considered a suggestion made during its project on service concessions that it should take onto its agenda a separate project to interpret the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in respect of obligations to repair or maintain another entity's property, plant and equipment that the reporting entity uses.

The IFRIC decided not to add this topic to its agenda because, in practice, entities are recognising a provision for repairs as damage or usage occurs that the entity is obliged to make good. The IFRIC was not aware of evidence that significantly divergent interpretations were being reached in practice.

IAS 38 Regulatory asset

The IFRIC considered a request for guidance for operations subject to price regulation. The request concerned situations in which a regulatory agreement allowed the entity to increase its prices in future years to recover outflows of economic resources during the current or previous years. The IFRIC was asked whether US SFAS 71 *Accounting for the Effects of Certain Types of Regulation* could be applied under the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for selection of an accounting policy in the absence of specific guidance in IFRSs

The IFRIC observed that it had previously discussed whether a regulatory asset should be recognised in the context of service concession arrangements, either as deferred costs or as an intangible asset to reflect an expectation that the entity will recover these costs as part of the price charged in future periods. It had concluded that entities applying IFRSs should recognise only assets that qualified for recognition in accordance with the IASB's *Framework for the Preparation and Presentation of Financial Statements* and relevant accounting standards, such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

The IFRIC had noted that SFAS 71 required entities to recognise regulatory assets when certain conditions were met. However, the IFRIC had concluded that the recognition criteria in SFAS 71 were not fully consistent with recognition criteria in IFRSs, and would require the recognition of assets under certain circumstances which would not meet the recognition criteria of relevant IFRSs. Thus the requirements of SFAS 71 were not indicative of the requirements of IFRSs.

Since it already had concluded that the special regulatory asset model of SFAS 71 could not be used without modification, the IFRIC noted that expenses incurred in performing price-regulated activities should be recognised in accordance with applicable IFRSs and decided not to add a project on regulatory assets to its agenda.

IAS 39 Meaning of delivery

The IFRIC considered the application of the 'own purchase, sale or usage requirements' scope exemption in paragraph 5 of IAS 39 when:

- the market design or process imposes a structure or intermediary (eg a gold refiner or an electricity market operator) that prevents the producer from physically delivering its production to the counterparty of the hedge pricing contract; and
- in some cases, physical delivery is to the intermediary for the spot price, even if the producer is protected from spot price risk by a separate contract that effectively sets a fixed price for the producer's production.

The IFRIC noted that 'delivery' for the purposes of the paragraph 5 exemption is not necessarily restricted to the physical delivery of the underlying to a specific customer, as physical delivery is not a condition of the exemption. The IFRIC was of the view that delivery of gold to a refiner in return for an allocation of an equivalent quantity of refined gold was not delivery, but that allocation of that refined gold to a customer's account could be regarded as delivery. The IFRIC decided not to develop guidance on the meaning of 'delivery' as it was not aware of evidence of significant diversity in practice.

The IFRIC indicated that a synthetic arrangement that results from the linking of a non deliverable contract entered into with a customer to fix the price of a commodity with a transaction to buy or sell the commodity through an intermediary would not satisfy the paragraph 5 scope exemption.

The IFRIC decided not to add this topic to its agenda, since IAS 39 was clear on both points.

Tabled agenda proposals

The following items, including where appropriate suggested reasons for not adding them to the IFRIC agenda, will be discussed at the November IFRIC meeting. Care should be exercised in reading each of the suggested wordings, as they are expressed in the form recommended by the IFRIC Agenda Committee, which it would employ if it were the IFRIC. References to the IFRIC deciding are therefore placed in [square brackets], since it will be for the IFRIC to reject or accept that wording at its next meeting.

Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are welcome to relay these concerns by 5 October 2005, preferably by email to:

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IFRS 4 Discretionary participation features (DPF) in insurance contracts or financial liabilities

The IFRIC received a request for interpretative guidance on:

- the definition of a discretionary participation feature (DPF) in IFRS 4 *Insurance Contracts*
- the interaction of the liability adequacy test (paragraphs 15-19 of IFRS 4) with the minimum measurement of the guaranteed element of a financial liability containing a DPF (paragraph 35(b) of IFRS 4).

The IFRIC was informed of concerns that key disclosures regarding these features are required only in respect of items regarded as DPF. Consequently, a narrow interpretation of DPF would fail to result in clear and comprehensive disclosure about contracts that include these features. The IFRIC noted that disclosure is particularly important in this area, given the potential for a wide range of treatments until the IASB completes phase II of the project on insurance contracts.

The IFRIC noted that IFRS 4 requires an insurer to disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts (paragraph 36) and information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts (paragraph 38).

The IFRIC also noted that the Guidance on Implementing IFRS 4 was designed to help entities to develop disclosures about insurance contracts that contain a DPF.

[The IFRIC decided] not to add this topic to the agenda, because it involves some of the most difficult questions that the IASB will need to resolve in phase II of its project on insurance contracts. The fact that in developing IFRS 4, the IASB chose to defer such questions to phase II limits the scope for reducing diversity through an Interpretation.

IAS 12 Income Taxes – Single asset entities

The IFRIC considered the application of IAS 12 to single asset entities, and whether the expected manner of recovery of the asset should in any circumstances reflect disposal of the entity rather than the asset.

[The IFRIC decided] not to take this item onto its agenda because the issue falls directly within the scope of the IASB's short-term convergence project on income taxes with the FASB. An exposure draft is expected later in 2005.

IAS 32 Employee long service leave

The IFRIC considered whether a liability for long service leave falls within IAS 19 or whether it is a financial liability within the scope of IAS 32.

The IFRIC noted that IAS 19 indicates that employee benefit plans include a wide range of formal and informal arrangements. It is therefore clear that the exclusion of employee benefit plans from IAS 32 includes all employee benefits covered by IAS 19.

[The IFRIC decided] that, since the Standard was clear, it would not expect diversity in practice and would not take this item onto its agenda.

IFRS 2 Employee share loan plans

The IFRIC considered the accounting treatment of employee share loan plans. Under many such plans, employees are enabled to acquire shares by means of a loan from the issuer with recourse only to the shares. The IFRIC indicated that such an arrangement was in substance a share option plan in which options were exercised on the date or dates when the loan was repaid.

[The IFRIC decided] not to take this item onto its agenda because there was insufficient evidence of emerging diversity in practice.

Future IFRIC meetings

The IFRIC's meetings are expected to take place in London, UK, as follows:

2005

- 1 and 2 September
- 3 and 4 November
- 1 and 2 December

2006

- 12 and 13 January
- 2 and 3 March
- 11 and 12 May
- 6 and 7 July
- 7 and 8 September
- 2 and 3 November

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB Website at www.iasb.org before the meeting. Interested parties may also submit requests for Interpretations through the IASB Website at www.iasb.org/about/ifric.asp

