

# On the Horizon for IFRS

April 21, 2010

## IFRIC issues March 2010 meeting highlights

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## IFRIC issues March 2010 meeting highlights

*All decisions reached at IFRIC meetings are tentative and may be changed or modified at future meetings. Committee decisions become final only after completion of a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.*

The International Financial Reporting Interpretations Committee has issued the March 2010 [IFRIC Update](#), which summarizes the Committee's meeting in London on March 4-5, 2010. Highlights of the meeting are discussed below.

### Key issues

At its March 2010 meeting, IFRIC:

- Tentatively agreed on the accounting for stripping costs in a surface mining activity during the production phase
- Deliberated the scope of its project on vesting and non-vesting conditions

- Confirmed its decisions in January 2010 not to add the following issues to its agenda:
  - Determining the functional currency of an investment holding company
  - Distinguishing between liability and equity for a financial instrument where shareholders have discretion over the payment
  - Providing guidance on transition requirements in IFRS 8 and its interaction with IAS 36
  - Determining the unit of account for forward contracts with volumetric optionality
- Made tentative decisions not to add the following issues to its agenda:
  - Determining the carrying amount of self-constructed assets on transition to IFRS for first-time adopters
  - Reversing an impairment loss for a disposal group that is related to goodwill
  - Accounting for plan assets in the financial statements of retirement benefit plans
- Proposed amendments recommended for finalization in the *Annual Improvements* project – 2008-2010 cycle:
  - Accounting policy changes by a first-time adopter of IFRS and interim reporting
  - Accounting for unreplaced or voluntarily replaced share-based payment transactions in a business combination
  - Clarifying the presentation of changes in components of equity
  - Updating IAS 8 for change in terminology to the qualitative

- characteristics in the Conceptual Framework project
  - Clarifying the transition requirements for amendments made as a result of IAS 27 to IAS 21, IAS 28, and IAS 31
  - Clarifying the fair value of award credits in IFRIC 13
- Proposed amendments recommended for removal from the *Annual Improvements* project – 2008-2010 cycle:
  - Applying IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity
  - Changing the fair value model to the cost model for investment properties
- Issues recommended to be added to the *Annual Improvements* project – 2009-2011 cycle
  - Clarifying the accounting for the tax effect of distributions to equity holders
  - Disclosing total segment assets in interim financial reporting
- Issues recommended not to be added to the *Annual Improvements* project – 2009-2011 cycle
  - Accounting for contingent consideration by first-time adopters of IFRS
  - Clarifying the scope of IFRS 8

### Accounting for production stripping costs

In a surface mining operation, waste material is removed in order to expose the ore deposit. That process can be extensive. This issue addresses the accounting for the costs of removing waste material during the production phase. Waste removal costs are commonly referred to as *stripping costs*. These costs typically include direct costs, such as labor, fuel, and transportation and an allocation of indirect costs, such as the salaries of supervisors.

At the March 2010 meeting, IFRIC discussed whether stripping costs should be included in current period production costs, capitalized, or some combination of both. If capitalized as an asset, IFRIC also discussed the subsequent amortization of the asset.

IFRIC tentatively agreed that when accounting for stripping costs the unit of account would be the stripping campaign which is the period of waste removal or stripping activity. IFRIC also tentatively agreed that:

- Waste removal activities benefit the entity through improved access to the ore to be mined and therefore that benefit meets the definition of an asset. IFRIC considered whether this benefit would be an improvement of (or addition to) an existing asset, or a separate asset.
- The accounting guidance in IAS 16, *Property, Plant and Equipment*, would apply. However, IFRIC did not decide whether the asset meets the definition of property, plant and equipment or of an intangible asset. This issue will be considered at a future meeting.
- The specific identification approach would be used to allocate the benefit of the waste removal activities to current and future periods. Under this method, the costs of a stripping campaign are allocated to the section of the mine that becomes accessible as a result of the campaign.

IFRIC also tentatively agreed that the asset created would be attributed (amortized) over the specific ore reserves that benefited from the stripping campaign.

At the May 2010 IFRIC meeting, a draft interpretation will be presented for discussion.

### Vesting and non-vesting conditions

This issue was added to the IFRIC agenda to clarify the distinction between a service condition, a performance condition, and a non-vesting condition in IFRS 2, *Share-based Payment*, as well as the interaction of multiple conditions. Under IFRS 2, vesting conditions determine whether an entity receives the services of the counterparty in a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require completion of a specified period of service and achievement of specified performance targets. A non-vesting condition is neither a service condition nor a performance condition but is a feature of the award.

At the March 2010 meeting, the staff provided an analysis of this issue to IFRIC. IFRIC began preliminary deliberations on the scope of this project; however, no decisions were reached. IFRIC provided input to assist the staff in its research and analysis of this issue and asked the staff to consider whether convergence with U.S. GAAP on this issue would be helpful.

This issue will be discussed further at the May 2010 meeting.

### **IFRIC agenda decisions**

*IFRIC agenda decisions are not Interpretations, which are determined only after deliberation and due process, including a formal vote. IFRIC Interpretations become final only when approved by the IASB.*

At the January 2010 meeting, IFRIC tentatively decided to defer a decision on whether to add four issues to the agenda. IFRIC reconsidered these issues at the March 2010 meeting.

#### **IAS 21, The Effects of Changes in Foreign Exchange Rates – Determination of functional currency of an investment holding company**

The issue IFRIC was asked to consider is whether the underlying economic environment of an investment holding company's subsidiaries should be considered when determining the functional currency of the investment holding company in its separate financial statements. Investment holding companies have some unique features that may make determination of the functional currency under IAS 21 more challenging. Unlike many entities providing goods and services, investment holding companies have low operating expenses and earn revenue in the form of dividends from their investments. The holding company's investments are typically operating subsidiaries. When those operating subsidiaries are foreign operations they could have a functional currency that is different from the local currency of the holding company.

The issue submitted to IFRIC relates to a situation in which an investment holding company is located in Hong Kong and all its operating subsidiaries are located in mainland China. The concern raised is whether it would not be appropriate to use the Hong Kong dollar (HKD) as the functional currency of the investment holding company when all the operating subsidiaries have as their functional currency the Renminbi, even though the dividends to the

holding company had to be received in HKD or converted to HKD on receipt because of currency restrictions.

IAS 21 requires each individual entity in a group to determine its own functional currency. There is no concept of a group functional currency. IAS 21.8 defines *functional currency* as “the currency of the primary economic environment in which the entity operates.” The primary economic environment is where the entity primarily generates and expends cash (IAS 21.9). IAS 21 includes primary and secondary factors to consider when determining the functional currency. The primary factors to consider concern the currency that mainly influences sales prices and costs. The secondary factors to consider concern the currency in which funds from financing activities are generated and in which receipts from operations are retained.

In its discussion of this submission, IFRIC noted that paragraphs 9 through 11 of IAS 21, *The Effects of Changes in Foreign Exchange Rates*, include factors to be considered in determining the functional currency of an entity. Paragraph 12 states, in part, that “when the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.” IFRIC also noted that paragraph 17 requires that each entity determine its functional currency following the guidance in paragraphs 9 through 14; therefore, paragraph 9 should not be considered in isolation.

Consequently, determining an entity's functional currency under IAS 21 requires the exercise of judgment for an investment company or any other type of entity. IAS 1, *Presentation of Financial Statements*, requires disclosure of significant accounting policies and judgments that are relevant to an understanding of the financial statements.

IFRIC decided not to add the issue to its agenda because it believes that any guidance it could provide would be in the nature of application guidance rather than an interpretation.

#### IAS 32, Financial Instruments: Presentation – Shareholder discretion

The issue IFRIC was asked to consider is whether a financial instrument in the form of a preference share (preferred stock) that includes a contractual obligation to deliver cash is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders.

IFRIC agreed that diversity may exist in practice in assessing whether an entity has an unconditional right to avoid delivering cash if the contractual obligation is at the ultimate discretion of the issuer's shareholders, and consequently whether a financial instrument should be classified as a financial liability or equity.

Generally, if an entity has discretion over whether to deliver cash it can avoid liability treatment. According to IAS 32.19, if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, that obligation is a financial liability. Similarly, IAS 32.AG26 states, "When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments."

The request to IFRIC potentially raises broader issues around the relationship between an entity and its shareholders. There is no specific guidance in IFRS on whether a decision made at the discretion of shareholders is within the control of the entity or within the control of its shareholders. That determination would require judgment, based on the specific facts and circumstances. For example, a

change of control that requires shareholder approval could be assessed differently when share holdings are widely held than when one or two individuals hold a majority of the votes. In the former case, shareholder approval may be a substantive term while in the latter situation it may be more of a formality.

Although IFRS do not contain an overall principle to address how the financial statements should reflect the actions of the shareholders, there is specific guidance in different IFRS. Sometimes the actions of the entity are subordinate to shareholders, sometimes shareholder actions are subordinate, and sometimes it depends on the capacity in which the shareholder is acting. For example, IFRIC 17, *Distribution of Non-cash Assets to Owners*, requires approval (e.g. by shareholders) before a liability is recognized for the dividend. In contrast, paragraph 8 of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, only requires consideration of the probability of shareholder approval in assessing whether a sale is highly probable. Further, IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, includes transactions with shareholders, except when they are acting in their capacity as shareholders. Ultimately, it will depend on the specific facts and circumstances and professional judgment to determine the proper accounting for transactions and events when shareholder discretion is involved.

IFRIC noted that the Board is currently undertaking a project to improve and simplify the financial reporting requirements for financial instruments with characteristics of equity. The main objectives of this project are to develop a better distinction between equity and non-equity instruments and converge IFRS and U.S. GAAP.

IFRIC decided not to add this issue to its agenda. Instead, it recommended that the Board address this issue in conjunction with the Board's current project on Financial Instruments with Characteristics of Equity, which is expected to address the distinction between equity and non-equity instruments sooner than IFRIC would be able to.

**IAS 36, Impairment of Assets – Interaction with transition requirements of IFRS 8**  
IFRIC was asked to provide guidance on the transition requirements in IFRS 8, *Operating Segments*, and its interaction with IAS 36, *Impairment of Assets*.

At the time IFRS 8 was issued in November 2006, the IASB made a consequential amendment to IAS 36. The consequential amendment replaced the reference to “segments” (as determined in accordance with IAS 14, *Segment Reporting*) with “operating segments” (as determined in accordance with IFRS 8). In particular, paragraph 80(b) of IAS 36 was amended to refer to IFRS 8 when setting the limit for aggregating cash-generating units when testing for goodwill impairment. The change in the definition of segments may cause some entities to recognize an impairment loss for goodwill in the first year of adoption of IFRS 8.

Although IFRS 8 includes specific transition requirements, there are no specific transition provisions that pertain to the consequential amendment to IAS 36.80(b). Therefore, IFRIC was asked whether any incremental goodwill impairment loss determined as a result of retrospective application of the change from IAS 14 to IFRS 8 should be presented as a prior period adjustment or a current period event.

Whether the impairment loss is presented as a prior period adjustment or a current event may hinge on whether the change in the definition of segments is considered to be a change in accounting policy or a change in the application of

that policy. If the change in the definition of a segment is considered a change in the application of that policy, the resulting impairment loss would be recognized as a current year charge in profit or loss. However, if the change in the definition of a segment is considered a change in accounting policy, the change would be applied retrospectively in accordance with IAS 8.19b. Retrospective application would require the use of hindsight to estimate recoverable amounts of an operating segment as of a date in an earlier period, which is generally discouraged. Further, the amendment of IAS 36 in IFRS 8 does not require reperformance of measurements called for by IAS 36.

IFRIC noted that IFRS 8 is effective for annual periods beginning on or after January 1, 2009. Therefore, it applies to entities with annual periods ending December 31, 2009 and thereafter. Based on the required due process procedures included in the IFRIC *Due Process Handbook*, IFRIC would not be able to provide guidance on a timely basis and therefore decided not to add the issue to its agenda.

**IAS 39, Financial Instruments: Recognition and Measurement – Unit of account for forward contracts with volumetric optionality**

The issue IFRIC was asked to consider is whether a contract with both of the conditions listed below can be assessed as two separate contracts for the purpose of applying paragraphs 5 - 7 of IAS 39, *Financial Instruments: Recognition and Measurement*:

- A contract obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash
- A contract provides the counterparty with the option to purchase a fixed number of additional units of the same item at a fixed price

This issue was discussed in the [February 3, 2010 IFRS Update](#) on the November 2009 IFRIC meeting. At that meeting, the IFRIC did not decide whether to take the issue onto its agenda, but instead directed the staff to research the issue further. In particular the staff was asked to confirm whether there is diversity in practice and whether the issue is relevant for industries other than the energy industry. In its outreach to accounting firms and a preparer, the staff confirmed that diversity does exist in practice and the issue is broader in scope than energy companies. These contracts are used in other industries that use commodities, such as chemicals and precious metals in their production processes.

Although IFRIC recognized that diversity exists in practice, IFRIC decided not to add this issue to its agenda because the Board has accelerated its project to develop a replacement for IAS 39 and expects to issue a comprehensive replacement standard by the end of 2010. The scope of IAS 39, including the guidance about contracts to buy or sell non-financial items in paragraphs 5 - 7 of IAS 39, will be considered as part of the replacement for that standard.

#### **Tentative agenda decisions**

After reviewing the following issues, the Committee made the following tentative decisions. These issues will be reconsidered at the May 2010 meeting.

##### **IFRS 1, First-time Adoption of International Financial Reporting Standards – Accounting for costs included in self-constructed assets on transition**

IFRIC was asked about the application of IFRS for an entity that has been capitalizing certain costs, including actuarial gains and losses, as part of self-constructed assets, but on transition to IFRS changes its accounting policy for actuarial gains and losses and determines that they should no longer be capitalized. The question is whether the entity should adjust the carrying amount of self-constructed assets on transition to IFRS and, if not, how the change in its actuarial gains and losses accounting policy should be reflected in the carrying amount of self-constructed assets in subsequent reporting periods.

IFRIC noted that paragraph 7 of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, requires an entity to use “the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements.”

IFRIC decided not to add this issue to its agenda because the issue is not currently widespread and there are not significantly divergent interpretations (either emerging or already existing in practice).

##### **IFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Reversal of disposal group impairment losses relating to goodwill**

IFRIC received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognized for goodwill.

Under paragraph 22 of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, an entity can recognize a reversal of an impairment loss (a gain) for any subsequent increase in fair value less costs to sell a disposal group to the extent that it has not been recognized through the remeasurement of assets and liabilities under other IFRS, but not in excess of the cumulative impairment loss that has been previously recognized on the non-current assets within the scope of the measurement guidance of IFRS 5. However, paragraph 23 requires the reversal to be allocated in accordance with paragraph 122 of IAS 36, *Impairment of Assets*, which states that the reversal of an impairment loss shall be allocated to assets except for goodwill. In addition, paragraph 124 of IAS 36 prohibits the reversal of a goodwill impairment loss.

In practice, the following two views have arisen:

- An impairment loss should not be reversed if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale
- An impairment loss should be reversed if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale

IFRIC recognized a potential conflict between the guidance in paragraph 22 and paragraph 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill.

However, IFRIC decided not to add this issue to its agenda. IFRIC observed that the issue may not be resolved efficiently within the confines of existing IFRS and the Framework and that it is not probable that the IFRIC will be able to reach a consensus on a timely basis. Therefore, it recommended that the Board address this issue in a post-implementation review of IFRS 5.

#### **IAS 26, Accounting and Reporting by Retirement Benefit Plans – Valuation of plan assets**

IFRIC was asked to clarify the interaction between IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, and IAS 39, *Financial Instruments: Recognition and Measurement*, relating to the accounting for retirement benefit plan investments (plan assets), in the financial statements of retirement benefit plans prepared in accordance with IAS 26.

IFRIC noted that the guidance in paragraph 32 on the valuation of plan assets is clear. Plan assets shall be carried at fair value. IFRIC also noted that changes in the fair value of plan assets should be presented and disclosed in the statement of changes in net assets available for benefits in accordance with paragraph 35

of IAS 26. Classification of the plan assets in accordance with IAS 39 would not be appropriate.

IFRIC decided not to add this issue to its agenda or to recommend an amendment to the standards because IFRS are clear and that divergent interpretations are not expected in practice.

#### **Annual Improvements**

IFRIC assists the IASB in its *Annual Improvements* project by reviewing proposed improvements to IFRS and making recommendations to the Board. Specifically, IFRIC reviews and deliberates issues for inclusion in future exposure drafts of proposed *Improvements to IFRSs* and deliberates the comments received on the exposure drafts. When IFRIC reaches a consensus on an issue included in the *Annual Improvements* project, the recommendation (including finalization of the proposed amendment or removal from the project) will be presented to the Board for ratification, in a public meeting, before being finalized. Approved *Improvements to IFRSs* (including exposure drafts and final standards) are issued by the Board.

#### **2008-2010 cycle**

IFRIC deliberated the comments received on the remaining eight proposed amendments included in the exposure draft of proposed *Improvements to IFRSs* published in August 2009. IFRIC confirmed its recommendations for the Board to finalize six of the proposed amendments, subject to its final review of drafting changes.

#### **Proposed amendments recommended for finalization**

#### **IFRS 1, First-time Adoption of International Financial Reporting Standards – Accounting policy changes in the year of adoption**

The proposed amendment would clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1, *First-time Adoption*

of *International Financial Reporting Standards*, after it has published an interim financial report in accordance with IAS 34, *Interim Financial Reporting*, for part of the period covered by its first IFRS financial statements, it would both:

- Explain the changes
- Update the reconciliations from previous GAAP to IFRS of its equity and total comprehensive income

**IFRS 3, *Business Combinations* – Unreplaced and voluntarily replaced share-based payment transactions**

IFRS 3, *Business Combinations*, does not address the accounting for unreplaced or voluntarily replaced share-based payment transactions. The proposed amendment would clarify that these transactions should be accounted for in the same manner as share-based payment transactions of the acquiree that the acquirer is obliged to replace. That is, the market-based measure should be allocated between consideration transferred and post-combination costs.

After considering the comment letters, IFRIC decided

- To rearrange and simplify the guidance on how to determine when an acquirer is obliged to replace share-based payment transactions of the acquiree
- To clarify application of the transition provisions (prospective from date first applied IFRS 3 (revised 2008))
- To explain in the Basis for Conclusions the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree that expire as a result of the business combination and those that do not (awards that replace expired awards are for future services only, as the acquirer has no obligation to the employee for past services)

**IAS 1, *Presentation of Financial Statements* – Clarification of statement of changes in equity**

IFRIC recommended the Board finalize the proposed amendment to IAS 1, *Presentation of Financial Statements*, to state explicitly that an entity would present the changes in components of equity either in the statement of changes in equity or in the notes to the financial statements. In addition, IFRIC recommended that the current wording of paragraph 107 of IAS 1 be retained to emphasize that dividends recognized as distributions would be disclosed separately.

**IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – Change in terminology to the qualitative characteristics**

The proposed amendment would update certain paragraphs in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to reflect the use of new terminology for some of the qualitative characteristics of financial reporting being developed for the new Conceptual Framework. IFRIC recommended the Board finalize the proposed amendment provided that the relevant chapters of the forthcoming Conceptual Framework are issued before finalization and issue of *Improvements to IFRSs*.

**IAS 27, *Consolidated and Separate Financial Statements* – Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31**

IFRIC recommended the Board finalize the proposed amendment that would clarify that the consequential amendments made to IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*, as a result of the 2008 amendment of IAS 27, *Consolidated and Separate Financial Statements*, would require prospective application.

#### **IFRIC 13, Customer Loyalty Programmes – Fair value of award credits**

IFRIC recommended the Board finalize the proposed amendment that would clarify the meaning of the term *fair value* in IFRIC 13, *Customer Loyalty Programmes*. After considering the comments received, IFRIC recommended that paragraph AG2(a) be clarified to reflect that the fair value of award credits would take into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. IFRIC also recommended that the Illustrative Examples be amended to include the possible redemption in goods rather than in cash only.

#### **Previously recommended proposed amendment**

In January 2010, IFRIC proposed an amendment to paragraph 19 of IFRS 3, *Business Combinations*, that would clarify that the choice for measuring the non-controlling interest in the acquiree applies only to components of non-controlling interests that are present ownership instruments and entitle their holders to a proportionate share of the entity's net assets in the event of a liquidation. At this meeting, IFRIC deliberated illustrative examples relating to that proposed amendment. The proposed amendment presented to the Board for review and potential finalization will include these examples.

#### **Proposed amendments recommended for removal**

IFRIC recommended that the following two proposed amendments that were included in the exposure draft of proposed *Improvements to IFRSs* published in August 2009 not be finalized and be formally removed from *Annual Improvements*:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* – Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity. At the February 2010 IASB meeting, the Board tentatively decided that the definition of *significant economic events* would be limited to loss of control. Therefore, as

the proposed amendment is no longer relevant, IFRIC recommended that the Board address this issue as part of the Joint Arrangements project.

- IAS 40, *Investment Property* – Change from fair value model to cost model. IFRIC recommended that the Board address this issue as part of a separate project

The staff also informed IFRIC that at the February 2010 Board meeting the Board tentatively decided not to finalize the issue related to the partial use of fair value for measurement of associates within *Annual Improvements* and has tentatively decided to address this issue within the Joint Arrangements project. IFRIC deliberated this issue in January 2010.

#### **2009-2011 cycle**

IFRIC discussed four issues for possible inclusion in *Annual Improvements* and recommended that the Board add two of these issues to *Annual Improvements*. If the Board confirms these issues, they will be included in the exposure draft of proposed *Improvements to IFRSs* expected to be published in August 2010.

#### **Issues with recommendations to be added to the Annual Improvements**

##### **IAS 32, Financial Instruments: Presentation – Tax effect of distributions to equity holders**

IFRIC received a request to clarify the accounting for the tax effect of distributions to equity holders because of a potential conflict that exists in the guidance in IAS 12, *Income Taxes*, and IAS 32, *Financial Instruments: Presentation*. Paragraph 52B of IAS 12 requires that the income tax consequences of dividends paid to shareholders of the entity be recognized in profit or loss except in limited circumstances. However, paragraph 35 of IAS 32 requires that distributions to holders of equity instruments be debited to equity, net of any related income tax benefits.

IFRIC noted that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income taxes relating to distributions to equity holders. Therefore, IFRIC recommended the Board amend IAS 32 to clarify that the income tax effect of both distributions to equity holders and transaction costs relating to equity transactions would be accounted for in accordance with IAS 12. IFRIC also recommended a proposed consequential amendment to paragraph 11 of IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*, to reflect the proposed amendment to IAS 32.

#### **IAS 34, Interim Financial Reporting – Consistency in disclosure of total segment assets**

IFRIC received a request to clarify a potential conflict between IFRS 8, *Operating Segments*, and IAS 34, *Interim Financial Reporting*, regarding disclosure of segment assets. IAS 34 could be read to require disclosure of segment assets even if the amount is not regularly provided to the chief operating decision maker. Conversely, paragraph 23 of IFRS 8 states, “An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker.”

IFRIC does not agree with the view that IAS 34 could be read to require disclosure of segment assets regardless of whether that amount is regularly provided to the chief operating decision maker. Therefore, IFRIC is proposing an amendment to IAS 34 to clarify that disclosure of segment assets for a particular segment is required in interim financial reporting only when both of the following conditions occur:

- The amount of segment assets is regularly provided to the chief operating decision maker
- There has been a material change from the amount disclosed in the last annual financial statements for that segment

#### **Issues with recommendations not to be added to the Annual Improvements**

##### **IFRS 3, Business Combinations – Contingent consideration and first-time adoption**

At its meeting in February 2010, the Board tentatively decided to finalize an amendment within Annual Improvements that clarifies the transition relief for contingent consideration for existing IFRS preparers. This issue was discussed in the [February 11, 2010 IFRS Update](#) on the January 2010 IFRIC meeting. IFRIC considered whether to propose similar relief for first-time adopters at this meeting, but decided not to propose an amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

##### **IFRS 8, Operating Segments – Determination of scope**

The Board was asked to clarify whether IFRS 8, *Operating Segments*, applies to entities that issue debt or equity instruments to the public, but those instruments are not traded on a public market. Specifically, the constituent seeks clarification of the meaning of the term *public market* in IFRS 8 and proposes the scope of IFRS 8 be expanded to require segment disclosures for all entities that issue debt or equity instruments to the public (whether or not in a public market).

IFRIC decided *not* to recommend that these issues be added to *Annual Improvements* because they are beyond the scope for Annual Improvements. Instead, IFRIC recommended that the Board include a review of the scope of IFRS 8 in a future post implementation review of that standard.

##### **Annual Improvements criteria**

IFRIC was asked for its input on the criteria that should be used to assess issues for inclusion within *Annual Improvements*. The staff plans to use that input to draft proposed criteria for deliberation by the Trustees of the International Financial Reporting Standards Foundation at a future meeting.

## IFRIC work in progress

### IFRS 1, First-time Adoption of International Financial Reporting Standards – Fixed date in derecognition exception

IFRIC received a request to replace the fixed date of January 1, 2004 in paragraph B2 of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, that provides an exception from full retrospective application of the requirements for derecognition of financial assets and financial liabilities in IAS 39, *Financial Instruments: Recognition and Measurement*, with a relative date, such as the date of transition to IFRS. This issue has been raised because a number of jurisdictions will be adopting IFRS in the future and, as time passes, the date of January 1, 2004 for the exception to full retrospective application becomes more remote, creating transition issues.

At the meeting, IFRIC discussed the following courses of action:

- Changing the fixed date to a relative date, such as the date of transition to IFRS
- Deleting paragraph B2
- Not changing current requirements

IFRIC asked the staff to perform more research and analysis on the issue, including review of transition to IFRS in the context of the Derecognition project, before they could make a decision. IFRIC also asked the staff to reach out to members of the National Standard Setters group to get a better understanding of the consequence of removing or amending the exception.

This issue will be discussed further at the May 2010 meeting.

### IAS 1, Presentation of Financial Statements – Comparative information

IFRIC discussed the following issues related to the requirements for comparative information in IAS 1, *Presentation of Financial Statements*:

- If one or more financial statements are presented for a comparative period that is in excess of the minimum comparative information required by paragraphs 38 and 39 of IAS 1, would all of the comparative financial statements for that period have to be presented?
- In situations in which a statement of financial position is presented as at the beginning of the earliest comparative period as required by paragraph 39 of IAS 1, what would be the appropriate date for that statement?

Although paragraphs BC22 and BC32 of IAS 1 explain the Board's reason for providing information that enables an analysis of the financial statements of the current period, IFRIC believes that the current guidance in IAS 1 may lead to diversity in practice in understanding the requirements.

The IASB and FASB are expected to discuss these issues at the March 2010 joint Board meeting in connection with the Financial Statement Presentation project. Therefore, IFRIC will provide its preliminary views to the Boards for their consideration.

IFRIC plans to continue to discuss these issues at the May 2010 meeting taking into account the Boards' decisions in the Financial Statement Presentation project.

### IAS 21, The Effects of Changes in Foreign Exchange Rates – Repayment of investment/CTA

The Board received a request to clarify the circumstances in which the separate foreign currency equity reserve related to the retranslation of the net assets of an investor's net investment in a subsidiary (often referred to as the cumulative translation adjustment or CTA) should be reclassified to profit or loss.

IFRIC discussed this issue at the March 2010 meeting, but did not make any decisions. At IFRIC's request, the staff will continue its research and analysis of this issue.

Further discussion of this issue is expected at a future meeting.

#### **IFRIC outstanding issues update**

The IFRIC reviewed a summary of outstanding issues. All requests received and considered by the staff were discussed at this meeting except for two issues which are expected to be discussed at the May 2010 IFRIC meeting.

#### **Future meetings**

The next Committee meeting will be May 6 and 7, 2010.

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