

On the Horizon for IFRS

June 28, 2010

IFRIC issues May 2010 meeting highlights

Accounting for production stripping costs
Vesting and non-vesting conditions
Put options written over non-controlling interests
IFRIC agenda decisions
Tentative agenda decisions
Annual Improvements
IFRIC work in progress
IFRIC outstanding issues update
Future meetings

IFRIC issues May 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 IFRS Interpretations Committee (IFRIC) has issued the May 2010 [IFRIC Update](#), which summarizes the Committee's meeting in London on May 6-7, 2010. Highlights of the meeting are discussed below.

Key issues

At its May 2010 meeting, IFRIC:

- Discussed a draft Interpretation on the accounting for production stripping costs and tentatively agreed on certain accounting issues and revisions to the draft Interpretation
- Discussed an analysis of several definitions related to vesting and non-

vesting conditions, the interaction between multiple vesting conditions, and the determination of the attribution period, but did not reach any tentative decisions

- Decided to add an issue to its agenda on how an entity should account for changes in the carrying amount of a financial liability for a put option that is written on shares held by a non-controlling interest shareholder
- Confirmed its decisions in March 2010 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
- Made tentative decisions not to add the following issues to its agenda:
 - Going concern disclosures
 - Recognizing deferred tax assets for unrealized losses on available-for-sale debt securities
 - Accounting for the impairment of financial assets reclassified from available-for-sale to loans and receivables
- Recommended issues to be added to the Annual Improvements project – 2009-2011 cycle
 - Clarifying the borrowing costs exemption in IFRS 1
 - Presenting comparative information under IAS 1

- Clarifying the accounting for servicing equipment
- Recommended issues not to be added to the Annual Improvements project – 2009-2011 cycle
 - Clarifying the classification of puttable financial instruments
- Discussed the following projects that are in process:
 - IFRS 1 exemptions
 - Repeat application of IFRS 1
 - Reporting after a period of chronic hyperinflation
 - Changing from the fair value model to the cost model for investment properties

Accounting for production stripping costs

This issue addresses the accounting for the costs of removing waste material during the production phase of a surface mining operation.

In a surface mining operation, waste material is removed in order to expose the ore deposit. The costs to remove the waste are commonly referred to as *stripping costs*. Stripping costs in the production phase may be part of the routine costs incurred during production or they may be part of a concentrated and systematic effort to gain access to ore (often referred to as a *stripping campaign*). Stripping 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 January and March 2010 meetings, the committee discussed the project scope and the accounting requirements for stripping costs incurred during the production phase. After the March 2010 meeting, the staff prepared a draft Interpretation.

At the May 2010 meeting, the Committee discussed the draft Interpretation and tentatively agreed that:

- Costs incurred as a result of a stripping campaign that do not meet the definition of an asset would be accounted for as inventory costs in the current period
- A benefit created in a stripping campaign (improved access to the ore to be mined) that meets the definition of an asset would be accounted for as an addition to, or enhancement of, an existing tangible or intangible asset. This benefit is referred to as the *stripping campaign component*.
- The stripping campaign component would be specifically identified with the ore directly benefiting from the stripping campaign and therefore would form the basis of its subsequent amortization or depreciation

As a result of the Committee's discussion of the draft Interpretation, the staff was asked to revise the draft to include the following:

- A description of the concept of the stripping campaign. The staff was asked to consider including an explanatory diagram.
- An explanation of the difference between suspension of and termination of a stripping campaign for purposes of determining how to account for any remaining carrying amount of the stripping campaign component
- A clarification of the transition guidance including when an entity is currently applying the strip ratio approach
- The results of additional outreach to determine the nature and extent of any disclosure requirements

The revised draft Interpretation is expected to be presented at the next meeting.

Vesting and non-vesting conditions

In practice, constituents are having difficulty determining whether a condition is a service condition, non-market performance condition, market performance condition, non-vesting condition, or contingent feature of a share-based payment arrangement within the scope of IFRS 2, *Share-based Payment*. Therefore, IFRIC added this issue to its agenda to clarify the distinction between these conditions, as well as the interaction of multiple conditions.

According to IFRS 2, vesting conditions determine whether an entity receives the services that entitle the counterparty to receive cash, other assets, or equity instruments of the entity under 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.

IFRIC began preliminary deliberations on the scope of this project at the March 2010 meeting, but did not reach any decisions. At the May 2010 meeting, the Committee discussed an analysis of several definitions related to vesting and non-vesting conditions, the interaction between multiple vesting conditions, and the determination of the attribution period. Although no decisions were reached, the Committee is considering the following proposed changes to IFRS 2:

- Returning to an employee perspective when assessing vesting conditions. IFRS 2 originally defined vesting conditions from the perspective of the employee; however, the current definition, which was

introduced in the January 2008 amendment to IFRS 2, is phrased from the perspective of the entity.

- Clarifying the definition of a vesting condition and a vesting period
- Incorporating the definitions of non-vesting, service, performance, and other vesting conditions into IFRS, as well as a definition of attribution period (the period over which compensation cost is recognized)
- Removing the definition of a market condition from IFRS
- Providing additional guidance on contingent features and the interaction of multiple vesting conditions
- Including guidance on determining the attribution period when an arrangement includes multiple vesting conditions

The staff was asked to perform additional work to determine the impact of the proposed changes to IFRS 2 on current practice and to clarify certain of the proposed definitions.

The staff will present their findings at a future meeting and recommend how the proposals would be implemented.

Put options written over non-controlling interests

IFRIC was asked to consider how an entity should account for changes in the carrying amount of a financial liability for a put option that is written on shares held by a non-controlling interest shareholder in the consolidated financial statements of a parent entity. The put may be written either as part of a business combination or separately.

The request focuses on the accounting for a put option written after the 2008 amendments were made to IFRS 3, *Business Combinations*, IAS 27, *Consolidated and*

Separate Financial Statements, and IAS 39, *Financial Instruments: Recognition and Measurement*. The issue surfaced as a result of a potential conflict that these amendments created between the financial instruments guidance in IAS 32, *Financial Instruments: Presentation*, and IAS 39 and the guidance in IAS 27. The 2008 amendments modified the guidance on transactions with non-controlling interests and contingent consideration, including eliminating the previous scope exception for contingent consideration in IAS 39.

The Committee noted that some constituents believe that because the put option is initially recognized as a financial liability, subsequent changes in its carrying amount should be recognized in profit and loss. This approach is consistent with the guidance in IAS 32 and 39. However, other constituents believe that changes in the carrying amount of the put option should be recognized in equity consistent with the guidance in IAS 27 on transactions with non-controlling interests.

The Committee decided to add this issue to its agenda. The staff was directed to develop a paper for discussion at the next meeting that includes illustrative examples of the issues discussed and assesses the proposed scope of the project.

IFRIC agenda decisions

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

At the March 2010 meeting, IFRIC tentatively decided to defer a decision on whether to add the three issues discussed below to its agenda. IFRIC reconsidered these issues at the May 2010 meeting and reaffirmed their decision not to add these issues to its agenda.

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 changes its accounting policy for costs included in self-constructed assets on transition to IFRS.

The following situation was presented to IFRIC. In accordance with its previous accounting policies, an entity has been capitalizing actuarial gains and losses and certain other costs as part of self-constructed assets. On transition to IFRS, the entity determines that actuarial gains and losses should no longer be capitalized. Therefore, it changes its accounting policy for these items. In light of this change in accounting policy, IFRIC was asked the following questions:

- Should the carrying amount of self-constructed assets be adjusted on transition to IFRS?
- If the carrying amount of self-constructed assets is not adjusted on transition to IFRS, how should the change in accounting policy for actuarial gains and losses 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 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. The Committee also noted that the IASB decided not to add a project to its agenda on IFRS 5 impairment measurement and reversal issues in December 2009. Therefore, IFRIC decided not to add this issue to its agenda and 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.

Tentative agenda decisions

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

IAS 1, Presentation of Financial Statement – Going concern disclosure

The Committee was asked to consider enhancing the disclosure requirements in IAS 1, *Presentation of Financial Statements*, to provide a clearer link between disclosures about material uncertainties resulting from management's assessment in the financial statements and the effects that these material uncertainties may have on the ability of the entity to continue as a going concern.

Paragraph 25 of IAS 1 states that management shall make an assessment of an entity's ability to continue as a going concern. If management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, paragraph 25 requires the entity to disclose those uncertainties. IFRIC noted that the application of the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgment. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern.

The Committee decided not to add this issue to its agenda because IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and it does not expect diversity in practice.

IAS 12, Income Taxes – Recognizing deferred tax assets for unrealized losses on available-for-sale debt securities

IFRIC was asked whether an entity could recognize a deferred tax asset relating to unrealized losses on available-for-sale debt securities under IAS 12, *Income Taxes*.

The following situation was presented to IFRIC. An entity has an unrealized loss on an available-for-sale debt security. The entity determines that no loss of principal or interest is expected on the investment and it has the ability and intent to hold the investment to maturity. The entity has insufficient taxable temporary differences and no other probable taxable income against which the temporary difference (unrealized loss) can be utilized. In determining whether to recognize a deferred tax asset related to the available-for-sale debt security, IFRIC was asked:

- Whether an entity's ability and intent to hold an available-for-sale debt security until the unrealized losses reverse is a tax planning opportunity
- If so, whether recognition of a deferred tax asset relating to the unrealized losses can be assessed separately from the recognition of other deferred tax assets

The Committee noted that the objectives of IAS 12 and the deferred tax recognition principle relating to deductible temporary differences are based on recovering or settling the carrying amount of the asset or liability at the reporting date. In the context of the fact pattern described above, the entity's actions to hold the available-for-sale debt security to maturity do not meet the definition of a tax planning opportunity in paragraph 30 of IAS 12. In addition, paragraphs 24-31 of IAS 12 require an entity to assess the probability of realizing deferred tax assets on a combined basis that is consistent with the rules established by the taxation authorities.

The Committee decided not to add this issue to its agenda because IAS 12 provides sufficient guidance on the recognition of deferred tax assets relating to available-for-sale debt securities and it does not expect diversity in practice.

IAS 39, Financial Instruments: Recognition and Measurement – Impairment of financial assets reclassified from available-for-sale to loans and receivables

IFRIC was asked for guidance on how an entity should account for the impairment of financial assets with a fixed maturity after they have been reclassified from the available-for-sale category to loans and receivables.

According to the agenda request for this issue, a number of financial institutions reclassified financial assets from the available-for-sale category to loans and receivables in accordance with the October 2008 amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, during the financial crisis. Some of the reclassified financial assets have subsequently been determined to be impaired. In practice different views exist in applying IAS 39 to the following items:

- Calculating the effective rate
- Recognizing an impairment loss
- Adjusting the carrying amount of the financial asset after an impairment

The Committee pointed out that paragraph 50C of IAS 39 states that the fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost. A new effective rate of interest is then calculated and applied to the financial asset. The new effective rate is the rate that discounts the estimated future cash flows to the new carrying amount of the financial asset. When an impairment loss is recognized all gains or losses that have been recognized in other comprehensive income would be reclassified from equity to profit or loss under the requirements of paragraph 54 of IAS 39.

The Committee decided not to add this issue to its agenda because IAS 39 provides sufficient guidance on financial assets that are reclassified from available-for-sale to loans and receivables and it does not expect diversity 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.

The Committee deliberated four issues for possible inclusion in the *Annual Improvements 2009–2011* cycle and recommended that the Board add three of these issues to *Annual Improvements*. These recommendations will be submitted to the Board for discussion at a future Board meeting. If they are confirmed by the Board they will be included in the exposure draft of proposed *Improvements to IFRSs*, which is expected to be published in October 2010.

Issues with recommendations to be added to the Annual Improvements

IFRS 1, First-time Adoption of International Financial Reporting Standards – Clarification of borrowing costs exemption

IFRIC was asked to clarify the accounting for borrowing costs at the date of transition to IFRS for a first-time adopter that capitalized borrowing costs in accordance with previous GAAP. The issues raised are as follows:

- Should the carrying amount of capitalized borrowing costs under previous GAAP be eliminated or carried forward at the transition date?
- Should borrowing costs incurred after transition for qualifying assets under construction at the date of transition for which the commencement

date for capitalization is before the transition date be capitalized in accordance with the requirements of IAS 23, *Borrowing Costs*, or an entity's previous GAAP?

IFRIC recommended the Board amend the exemption for borrowing costs in IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to include the following:

- An entity would not be required to restate the borrowing costs component of assets determined in accordance with previous GAAP at the date of transition. However, an entity may choose to apply IAS 23 from an earlier date.
- An entity would be required to apply the requirements in IAS 23 to borrowing costs incurred after transition for qualifying assets under construction at the date of transition for which the commencement date for capitalization is before the transition date

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?

At the March 2010 Board meeting, the IASB discussed these issues in the context of the Financial Statement Presentation project. The IASB tentatively decided that only one comparative period would be required for a complete set of financial statements. If any additional comparative information is presented in one or more statements, it must be prepared in accordance with current IFRS and must be presented with the same prominence as the required comparative information. The Board also tentatively decided that when there is a change in accounting policy, restatement, or reclassification, an entity would present an opening statement of financial position as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods. An exposure draft on the Financial Statement Presentation project is scheduled to be published in Q2 2010.

At the next IFRIC meeting, the staff will provide an analysis of the Board's decisions that will be included in the Financial Statement Presentation exposure draft to the Committee for its review. IFRIC would then determine whether to recommend to the Board to add these issues to Annual Improvements to provide clarity for existing IFRS.

IAS 16, Property, Plant and Equipment – Clarification of accounting for servicing equipment

The Committee was asked to clarify a perceived inconsistency in IAS 16, *Property, Plant and Equipment*, regarding the classification of servicing equipment as property, plant, and equipment or inventory.

Paragraph 8 of IAS 16 states the following:

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and

equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Since the second sentence in paragraph 8 does not refer to servicing equipment, some believe that servicing equipment should be classified as inventory even if it is used during more than one period. In addition, the last sentence in paragraph 8 introduces the additional *used only in connection with* condition to the current definition of property, plant, and equipment which IFRIC believes is unnecessary.

The Committee recommended that the Board amend IAS 16. The proposed amendment would

- Clarify that servicing equipment is property, plant, and equipment when an entity expects to use it in more than one period and is inventory when the entity expects to use it in less than one period.
- Delete the requirement that spare parts and servicing equipment used during only one period in connection with an item of property, plant, and equipment be classified as property, plant and equipment.

Issues with recommendations not to be added to the Annual Improvements

IAS 32, Financial Instruments: Presentation – Clarification of the puttable instruments criteria for income trust units

IFRIC was asked to clarify the guidance relating to the classification of puttable financial instruments that include contractual obligations to provide pro rata distributions. Specifically, the constituent asked that the guidance in IAS 32, *Financial Instruments: Presentation*, be amended to clarify that a put can be classified as equity if it has a contractual obligation to deliver cash, or

another financial asset, to all existing holders of the instrument on a pro rata basis. The constituent believes that this proposed amendment would be consistent with the IASB's rationale in the *Classification of Rights Issues (Amendment of IAS 32)*.

The Committee decided *not* to recommend that this issue be added to *Annual Improvements* for the following reasons:

- The Board clearly identified unique circumstances that justified the *Classification of Rights Issues (Amendment of IAS 32)*, which do not exist in relation to the fact pattern in this request
- It could be considered an additional exception to the definition of a financial liability, which would be outside the scope of *Annual Improvements*
- It would only be effective for annual periods beginning on or after January 1, 2012, which is expected to be after the Board has issued a final *Financial Instruments with Characteristics of Equity* standard

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.

IFRIC recommended that the issue should be revisited at a later date, once the transition requirements of the proposed *Derecognition* standard are decided.

IFRS 1, First-time Adoption of International Financial Reporting Standards – Fixed date in exemption D20

IFRIC was asked to replace the fixed dates of October 25, 2002 and January 1, 2004 in paragraph D20 of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, with *the date of transition to IFRSs*. Paragraph D20 provides an exemption relating to the fair value measurement of financial assets or financial liabilities at initial recognition (day 1 gains and losses) in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

According to the provisions of paragraphs AG 76 and AG 76A of IAS 39, entities are required to defer day 1 gains and losses. However, the previous GAAP for some first-time adopters permits recognition of day 1 gains and losses. Therefore, these first-time adopters will have to recalculate day 1 differences for deferral purposes. Paragraph D20 of IFRS 1 allows first-time adopters to prospectively apply the provisions of paragraphs AG 76 and AG 76A of IAS 39 for transactions entered into after October 25, 2002 or January 1, 2004. Entities that will be adopting IFRS in the future would like to use the date of transition (a more current date) for purposes of calculating day 1 differences for deferral purposes.

Since this issue is similar to the issue on fixed date in derecognition exception discussed above, IFRIC recommended that this issue should also be revisited at a later date and that both issues should be resolved together.

IFRS 1, First-time Adoption of International Financial Reporting Standards – Repeat application of IFRS 1

The Committee was asked whether an entity can apply IFRS 1, *First-time Adoption of International Financial Reporting Standards*, more than once.

The following situation was presented to IFRIC. An entity previously reported under IFRS because of foreign listing requirements and therefore had applied IFRS 1. The entity then delisted and began to present its financial statements in accordance with its national GAAP rather than IFRS. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction changed from national GAAP to IFRS. Consequently, the entity begins to present its financial statements in accordance with IFRS. The request asks the Committee to clarify how the entity should transition back to reporting in accordance with IFRS and whether it can apply IFRS 1 for a second time.

The Committee supported recommending that the IASB amend IFRS 1 as part of *Annual Improvements* to clarify that an entity shall apply IFRS 1 when it meets the scope of the standard even if it has applied IFRS 1 in a previous reporting period. The staff was asked to present the proposed draft wording for this amendment at the next meeting.

IAS 29, Financial Reporting in Hyperinflationary Economies – Reporting in accordance with IFRSs after a period of chronic hyperinflation

The Committee was asked to clarify how an entity should resume presenting financial statements in accordance with IFRS after a period when it did not comply with IAS 29, *Financial Reporting in Hyperinflationary Economies*, because of chronic hyperinflation.

According to the request, an entity whose functional currency is the currency of a hyperinflationary economy is unable to comply with IAS 29 because the general price index relating to the entity's functional currency is unavailable and the functional currency lacks exchangeability. In other words, the entity's functional currency is suffering from chronic hyperinflation. The entity's functional currency then changes to a non-hyperinflationary currency.

The Committee reached a tentative conclusion that IAS 29 should be amended to provide guidance on how an entity would prepare and present an opening statement of financial position at the date when the entity's functional currency ceases to be a currency that is suffering from chronic hyperinflation. This guidance would require the entity to:

- Measure assets and liabilities on a fair value as deemed cost basis at that date
- Apply all applicable IFRS prospectively from that date
- Be deemed a new accounting entity from that date. Consequently, comparative information for the new accounting entity for periods before that date would not be needed.

The staff was asked to prepare proposed draft wording for this amendment and to present it at the next meeting.

IAS 40, Investment Property – Change from fair value model to cost model

This issue relates to the classification and measurement of an investment property when management intends to sell the asset. It was originally included as one of the proposed amendments in the August 2009 exposure draft of proposed *Improvements to IFRSs*. However, at the March 2010 meeting, the Committee recommended that the Board not finalize this issue as part of *Annual Improvements*, but rather address it as part of a separate project.

At its March 2010 meeting, the IASB discussed the Committee's recommendation, but decided not to add another project to the agenda. Instead, the Board requested that the issue be referred back to the Committee for further deliberation.

The Committee was not asked to reach a decision at this meeting. It plans to discuss this issue at its meeting in July 2010.

IFRIC outstanding issues update

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

Future meetings

The next Committee meeting will be July 8-9, 2010.

© 2010 Grant Thornton LLP, U.S. member firm of Grant Thornton International Ltd. All rights reserved.

This Grant Thornton LLP Update provides information and comments on current accounting and tax issues and developments. It is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting, tax, or other advice or guidance with respect to the matters addressed in the Update. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this Update.

Moreover, nothing herein shall be construed as imposing a limitation on any person from disclosing the tax treatment or tax structure of any matter addressed herein. To the extent this Update may be considered to contain written tax advice, any written advice contained in, forwarded with, or attached to this Update is not intended by Grant Thornton to be used, and cannot be used, by any person for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.