

On the Horizon for IFRS

February 3, 2010

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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 November 2009 [IFRIC Update](#), which summarizes the Committee's meeting in London on November 5-6, 2009. Highlights of the meeting are discussed below.

Key issues

At its November 2009 meeting, the IFRIC:

- Added an issue on extractive industry production stripping costs to its agenda
- Cleared an interpretation on debt-for-equity swaps

- Confirmed its July 2009 decisions to not add to its agenda issues on:
 - Measurement of noncontrolling interest in a business combination
 - Measurement of unreplaced and voluntarily replaced share-based payment awards in a business combination
 - Recognition of the write down of a disposal group
 - Treatment of general borrowings under IAS 23
- Made tentative decisions to not add to its agenda issues on:
 - Classification and measurement of share-based payment transactions with contingent settlement
 - Scope of investments in real estate investment trusts
 - Recognition of equity dividends as revenue
 - Combined financial statements in carve-outs
 - Presentation of comparatives in business combinations between entities under common control
 - Application of the *fixed-for-fixed* condition
 - Amortization of intangible assets
- Directed the staff to research further an issue on the unit of account for forward contracts with volumetric optionality

Stripping, the process of removing the overburden (non-mineral material that lies between the surface and mineral deposits), may continue after the mine has begun to produce, referred to as *production stripping*. The topic of this agenda item is whether production stripping costs should be capitalized or expensed.

In the second session, the staff presented a paper analyzing the following methods of accounting for production stripping costs:

- Expense production stripping costs as incurred
- Capitalize stripping costs as a variable production cost that would be included in inventory (U.S. approach)
- Capitalize stripping costs and attribute to the related mineral reserves in a systematic and rational manner (Canadian approach)
- Capitalize stripping costs using a strip ratio (widely used by IFRS reporting companies)

In their discussions, the IFRIC noted that, in general, mine development costs qualify for capitalization. In principle, production stripping activities create a future benefit for the entity and the related costs would qualify for recognition as, or as part of the carrying amount of, an asset.

The IFRIC discussed each of the four accounting methods presented in the paper.

Expense production stripping costs as incurred. Stripping costs are expensed as incurred when the costs are expected to be consistent from period to period or are immaterial. This view is based on the notion that stripping costs are a form of maintenance costs once a mine is in production, rather than expenditures that provide a future benefit that would meet the definition of an asset in the *Framework*. Also, it is simpler to expense stripping costs than to

Accounting for production stripping costs

After the IFRIC received a request for guidance on accounting for stripping costs incurred in the production phase of a mine, the staff prepared two papers on the topic, which were discussed in two separate IFRIC sessions. The first session included a brief discussion of the nature of stripping costs, current accounting practices, and additional background about the mechanics of and economic considerations within the mining industry.

accumulate and allocate costs incurred between current and future production. However, when the ratio of stripping costs to extraction costs varies significantly over the life of the mine, it is more apparent that part of the stripping costs would benefit future production, decreasing the appeal of this approach.

Capitalize stripping costs as a cost of inventory, as variable production costs. Required under U.S. GAAP, some entities reporting under IFRS have adopted this approach. Some believe that all costs to remove materials from a mine in commercial production are costs of inventory. This approach is consistent with IAS 2, *Inventories*, paragraph 12. But this approach ignores any future benefit of the production stripping activity, even when evident. Operational considerations may drive the need to incur significant stripping costs in one period to provide access to parts of a deposit that will be mined in the future, such as availability of equipment, or weather.

Capitalize stripping costs and attribute to reserves benefited in a systematic and rational manner. Required under Canadian GAAP, this approach requires determining which stripping costs benefit the current period and which benefit future periods. Because this approach allocates costs related to future production, it more accurately reflects the results of current period activities. It is consistent with the concept of component accounting in IAS 16, *Property, Plant and Equipment*, or with the notion of capitalized costs incurred to make an asset (the mine) ready for its intended use. This approach is not popular outside of Canada because it is cumbersome and resource intensive to apply. However, the staff was informed during an outreach session that most mining companies have a vast amount of technical information available.

Capitalize stripping costs using a strip ratio. Considered a variation on the Canadian approach, a number of IFRS reporting companies capitalize production

stripping costs to the extent they exceed average stripping costs incurred in the current period. A strip ratio is calculated as the estimated total waste divided by the estimated total proved and probable reserves. This ratio calculated for the life of the mine establishes the average strip ratio. The *average* strip ratio is then compared to the *actual* strip ratio for the period. If actual exceeds average, the excess is capitalized. If actual is less than average, all the actual stripping costs are expensed. Because it is efficient to apply, such as when an entity has a number of mines in various stages of production, this approach is widely used by entities reporting under IFRS. Conceptually, costs that are greater than average, such as extra costs incurred to remove a comparatively thick layer of overburden in a period, may not meet the definition of an asset under the *Framework*. Like the Canadian approach, the conceptual basis seems to be more about matching costs and revenues than whether an asset has been created. There also may be a unit of accounting issue whether average costs should be considered for one mine, or for more than one mine. There also may be some diversity in how the strip ratio is calculated in practice.

The IFRIC agreed that significant diversity exists in practice on this issue. The IFRIC concluded that this diversity exists because the issue is not addressed in IFRS, and other standards, in particular U.S. GAAP and Canadian GAAP, contain differing guidance on the issue. This has a significant effect on international financial reporting. The IFRIC also concluded that the issue is sufficiently narrow in scope to be capable of interpretation within the confines of IFRS.

Although this issue is within the scope of the IASB's project on *Extractive Activities*, definitive guidance on production stripping costs is not expected in the foreseeable future. Therefore, the IFRIC decided to add the issue to its

agenda and directed the staff to develop a paper for discussion at the January 2010 meeting, with a focus on defining the scope of the interpretation.

Extinguishing financial liabilities with equity instruments

The IFRIC completed its redeliberations of draft Interpretation D25, *Extinguishing Financial Liabilities with Equity Instruments* at this meeting. The IFRIC considered a revised draft Interpretation and basis for conclusions prepared by the staff that addressed the issues raised by respondents during the comment letter process. After confirming the consensus, the IFRIC submitted the Interpretation to the IASB for ratification at the Board's November 2009 meeting.

A debtor and a creditor might renegotiate the terms of a financial liability with the result that the debtor issues equity instruments to the creditor to extinguish the liability in full or in part. These transactions are sometimes referred to as "debt for equity swaps." Divergence has developed in practice. Some entities record a gain or loss based on either the fair value of the equity issued or the fair value of the liability extinguished. Other entities do not recognize a gain or loss, recording the value of the equity issued at the carrying amount of the liability extinguished.

Main issues

The IFRIC considered three main issues:

1. Are an entity's equity instruments issued to extinguish all or part of a financial liability *consideration paid* in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*?
2. How should an entity initially measure the equity instruments issued to extinguish such a financial liability?

3. How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

Issue 1: whether the equity issued is consideration paid

The first issue is to determine whether the equity issued is consideration paid. IAS 39.41 requires recognition of the difference between the carrying amount of a liability that is extinguished and the consideration paid in profit or loss. Although paragraph 41 refers to non-cash assets transferred and liabilities assumed as consideration paid, it does not specifically refer to equity instruments issued.

The IFRIC concluded that equity instruments issued to extinguish a financial liability are consideration paid, in accordance with IAS 39.41, and therefore that a gain or loss would be recognized. The IFRIC noted that equity instruments are used as consideration to acquire goods and services (IFRS 2, *Share-based Payment*), as well as to acquire businesses (IFRS 3, *Business Combinations*). Alternatively, the transaction could be viewed as consisting of two transactions – the issue of equity for cash and the payment of cash to the creditor to extinguish the liability.

Issue 2: initial measurement of the equity instruments issued

In the draft Interpretation, the IFRIC proposed that equity instruments issued to extinguish a financial liability should be measured initially at the fair value of the equity instruments issued or the fair value of the liability extinguished, whichever is more reliably determinable. However, many respondents proposed that the IFRIC determine a preferred measurement basis to avoid the appearance of an accounting choice.

In its redeliberations, the IFRIC noted that respondents had mixed views on whether the preferred measurement basis should be the fair value of the

equity instruments issued or the fair value of the financial liability extinguished.

There is support for using the fair value of the financial liability in the *Framework* and IFRS 2. The general principle is that equity is a residual that is measured initially by reference to changes in assets and liabilities. For example, in IFRS 2, when goods or services are received in return for the issue of equity instruments, the increase in equity is measured as the fair value of the goods or services received (unless that value cannot be estimated reliably).

The IFRIC concluded that the fair value of the equity instruments issued should be the preferred measurement basis to be consistent with the consensus that equity instruments issued are consideration paid. Also, the fair value of the equity issued best reflects total consideration paid when the transaction includes a premium to the creditor for renegotiating the terms of the financial liability. If the fair value of the equity instruments issued is not reliably determinable, the alternative measure of the fair value of the liability extinguished would be used.

Issue 3: how to account for any difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued

The IFRIC concluded that in accordance with IAS 39.41, the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss. As determined in Issue 1, in this case the consideration paid is the value of the equity instruments issued. That value is determined by the guidance in Issue 2, that is, fair value of the equity instruments unless not reliably determinable, in which case the alternative measure of the fair value of the liability extinguished is used.

In addition to IAS 39.41 and guidance in the *Framework* on income, the IFRIC noted that if the transaction were analyzed as consisting of an issue of equity instruments for cash and then the payment of the cash to the creditor, the difference between the cash payment and the carrying value of the liability

would be a gain or loss recognized in profit or loss. Similarly, if an entity amends the terms of a convertible instrument to induce early conversion, the fair value of any additional consideration paid to the holder is recognized in profit or loss. Therefore, if an entity settles an instrument with its equity instruments in a manner different from the original terms, any gain or loss should be recognized in profit or loss. To the extent that the creditor has required a premium to enter into the debt for equity swap, that would be captured in the measure of consideration paid, and thus in the gain or loss in profit or loss.

Other issues

Partial extinguishment

The issuance of an entity's equity instruments in a partial extinguishment may reflect consideration paid for both the extinguishment of part of the financial liability and modification of the remaining part of the liability. The IFRIC concluded that an entity would allocate consideration paid between the part of the liability that is extinguished and the part of the liability that remains outstanding. The entity would consider this allocation in determining the profit or loss to be recognized on the part of the liability extinguished and in its assessment of whether the terms of the remaining liability have been substantially modified. The IFRIC concluded that additional guidance on determining whether the part of the financial liability that remains outstanding has been substantially modified is outside the scope of this Interpretation.

Scope

The Interpretation only applies to the debtor that issues equity instruments to extinguish all or part of a financial liability. It does not address the accounting by the creditor, which is covered by other IFRS. Further, the IFRIC clarified that the scope of the Interpretation excludes transactions when either:

- The creditor is also a direct or indirect shareholder, and is acting in its capacity as a direct or indirect existing shareholder
- The creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution from or contribution to the entity
- The extinguishment of the financial liability by issuing equity shares is in accordance with the original terms of the liability

Other

The IFRIC also clarified that:

- Paragraph 49 of IAS 39 does not apply in measuring the fair value of all or part of an extinguished financial liability that includes a demand feature because the extinguishment transaction suggests that the demand feature is no longer substantive
- The fair value of the equity instruments issued should be measured at the transaction date, consistent with the guidance in IFRS 3, *Business Combinations*
- An entity would disclose the gain or loss on extinguishment as a separate line item in profit or loss or in the notes
- The Interpretation should be applied for annual periods beginning on or after April 1, 2010 (later changed to July 1, 2010) with earlier application permitted
- Retrospective application is required only from the beginning of the earliest comparative period presented. Although determining fair values retrospectively may be problematic, the IFRIC believes that the guidance in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* provides guidance for when retrospective application is impracticable. The IFRIC decided that it was preferable to require entities that could apply

the Interpretation retrospectively to do so, rather than requiring all entities to apply it prospectively. Retrospective application only from the earliest comparative period was chosen because application to earlier periods would result only in a reclassification of amounts within equity.

Note: On November 26, 2009, following IASB approval, the IFRIC released Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*.

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 July 2009 meeting, the IFRIC tentatively decided to defer a decision on whether to add four issues to the agenda. The IFRIC reconsidered these issues at the November 2009 meeting.

IFRS 3, Business Combinations – Measurement of NCI

The Committee received requests to clarify whether an entity should apply the measurement choice in paragraph 19 of IFRS 3 (as revised in 2008) to all components of a non-controlling interest (NCI). Paragraph 19 states that, for each business combination, the acquirer should measure any NCI in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Some believe that if an entity chooses to measure NCI as a proportionate share of the acquiree's identifiable net assets, it should apply this measurement to all components of the acquiree's equity such as options or warrants over an entity's own shares that are classified as equity and the equity component of a convertible instrument. The consequence would be that instruments other than those that are equivalent to minority interest would be measured at nil on acquisition.

While noting that it would be appropriate that the measurement choice should apply only to instruments currently entitled to a proportionate share of the acquiree's net assets, the Committee does not believe IFRS provide sufficient guidance to resolve the issue. The Committee decided not to add this issue to its agenda. However, the Committee recommended that the IASB amend IFRS 3 to address the issues identified as a part of the annual improvements project.

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

The Committee received requests to clarify the measurement of unreplaced and voluntarily replaced share-based payment awards of an acquiree in a business combination. IFRS 3 (as revised in 2008) contains requirements for outstanding acquiree share-based payment awards that the acquirer is obliged to replace or that expire as a consequence of the business combination. However, IFRS 3 does not provide requirements for other acquiree share-based payment awards. Accordingly, there is diversity in practice on the accounting for those awards.

The Committee concluded that when an acquirer does not replace unexpired share-based payment awards of the acquiree or voluntarily issues share-based payment replacement awards, at least some portion of the amount recognized for those awards should be regarded as part of the consideration transferred in the business combination.

The Committee reached a decision not to add this issue to its agenda. However, the Committee also decided to recommend that the IASB amend revised IFRS 3 to address the issues identified as part of the annual improvements project.

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Write-down of a disposal group

The Committee received a request to consider providing guidance on how to recognize a disposal group at the lower of carrying amount or fair value less

costs to sell when the difference between those two amounts exceeds the carrying amount of the non-current assets.

The Committee noted that IFRS 5.22 requires that an impairment loss recognized for a disposal group should be allocated to reduce the carrying amount of the non-current assets of the group. This can cause a conflict between the requirement in IFRS 5 to recognize the disposal group at fair value less costs to sell and the restriction on the assets to which that loss can be allocated.

The Committee noted that this issue could be widespread in the current economic environment and that there could be diversity in practice. The Committee concluded that the issue could not be addressed by an interpretation since it relates to the basic requirements of IFRS 5 and decided not to add this issue to its agenda. However, the Committee recommended that the IASB amend IFRS 5.

IAS 23, Borrowing Costs – Meaning of general borrowings

The Committee received a request to consider providing guidance on the treatment of general borrowings used to purchase assets other than a qualifying asset when determining the capitalization rate as defined in IAS 23.14.

The Committee noted the following:

- Because IAS 23.14 only excludes borrowings on qualifying assets from the determination of the capitalization rate, some conclude that borrowings related to obtaining specific assets that are not qualifying assets cannot be excluded. Others reach a different conclusion due to the general principle in IAS 23.10 which states that the borrowing costs that are directly attributable to the acquisition, construction, or

production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

- IAS 23.11 states that the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required

The Committee concluded that any guidance it could provide would be in the nature of application guidance rather than an interpretation and decided not to add this issue to its agenda. The Committee also noted that the IASB considered whether to add this issue to the annual improvements project.

At its July 2009 meeting, the IASB noted that IAS 23 only excludes debt used to acquire qualifying assets from the determination of the capitalization rate. Accordingly, the IASB decided not to add this issue to the annual improvements project.

Tentative agenda decisions

After reviewing the following issues, the Committee made the following tentative decisions. These issues are to be reconsidered at the January 2010 meeting.

IFRS 2, Share-based Payment – Transactions in which the manner of settlement is contingent on future events

The IFRIC received a request to clarify the classification and measurement of share-based payment transactions for which the manner of settlement is contingent on a future event that is either:

- Outside the control of both the entity and the counterparty
- Within the control of the counterparty

The IFRIC noted that paragraphs 34-43 of IFRS 2 provide guidance on share-based payment transactions in which the terms of the arrangement provide

either the counterparty or the entity with a choice of settlement. IFRS 2 does not provide guidance on share-based payment transactions for which the manner of settlement is contingent on a future event that is outside the control of either the entity or the counterparty.

The IFRIC noted that many other issues have been raised concerning the classification and measurement of share based payments as cash settled or equity settled. The IFRIC decided not to add these issues to its agenda and recommended that they be dealt with by the IASB in a post-implementation review of IFRS 2.

IFRS 4, Insurance Contracts and IAS 32 Financial Instruments Presentation – Scope issue for investments in REITs

In some jurisdictions, a Real Estate Investment Trust (REIT) is a tax designation used to describe an entity that meets certain criteria for preferential income tax status. The contractual terms of the ownership units of such REITs require it to distribute 90% of the Total Distributable Income (TDI) to its investors. The remaining 10% of TDI may be distributed at the discretion of management. The IFRIC received a request to provide guidance on whether the discretion to distribute the remaining 10% of TDI met the definition of a Discretionary Participation Feature (DPF) as defined in IFRS 4. A DPF is a contractual right to receive additional benefits as a supplement to guaranteed benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on:

- The performance of a specified pool of contracts or a specified type of contract;
- Realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
- The profit or loss of the company, fund or other entity that issues the contract

If the DPF definition is met, IFRS 4 permits the ownership units to be classified as a liability rather than classified into debt and equity components in accordance with IAS 32.

The IFRIC noted that the objective of IFRS 4 is to specify the financial reporting for insurance contracts. The definition of DPF in Appendix A of IFRS 4 requires, among other things, that the instrument provides the holder with guaranteed benefits and that the DPF benefits are supplemental to those guaranteed benefits. Further, guaranteed benefits are payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer. One view is that the 10% of TDI under management's discretion is not an additional benefit but rather a distribution of the holders' interest. If not distributed, those amounts contribute to equity, increasing the holders' share in net assets upon liquidation. In contrast, typical financial instruments with a DPF could result in distributions where the benefit is different for some of the unit holders. That discretion does not exist in the distribution of TDI.

The IFRIC noted that providing guidance on this issue would be in the nature of application guidance, rather than interpretative guidance. Therefore, the IFRIC decided not to add the issue to its agenda.

IAS 18, Revenue – Receipt of a dividend of equity instruments

The IFRIC received a request for guidance on how to recognize a dividend in the form of an investee's own equity instruments.

The IFRIC noted that current IFRS provide guidance on when revenue arising from dividends is recognized. Paragraph 29(a) of IAS 18 states that revenue arising from dividends is recognized when "it is probable that the economic benefits associated with the transaction will flow to the entity." When all ordinary shareholders are issued a dividend of an investee's own equity instruments on a pro-rata basis there is no change in the financial position or economic interest of any of the investors. The value of their investment and the ownership share they hold in the investee remains unchanged. In this situation, in accordance with IAS 18.29(a), the dividend is not recognized as revenue because it is not probable that there is an economic benefit associated with the transaction that will flow to the investor.

The IFRIC concluded that any guidance it could provide would be in the form of application guidance. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 27, Consolidated and Separate Financial Statements – Combined financial statements and redefining the reporting entity

The IFRIC received a request for guidance on whether a reporting entity has the ability to present financial statements in accordance with IFRS that include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship defined by IAS 27. Such financial statements might be necessary when a group entity carves out some entities or parts of entities which are then sold or included in a separate initial public offering.

The IFRIC noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of *reporting entity* in the

context of common control transactions. The IFRIC noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control in the acquirer's consolidated and separate financial statements. The IFRIC also noted that describing the reporting entity is the objective of Phase D of the Board's Conceptual Framework project.

The IFRIC also received a request for guidance on whether a reporting entity can be redefined to exclude from comparative periods entities or businesses that have been carved out of a group. There is some fairly restrictive guidance in the U.S. for this in SEC Staff Accounting Bulletin Topic 5.Z.7, *Accounting for the Spin-off of a Subsidiary*. The IFRIC noted that the Board's common control project referred to above will also consider the accounting for demergers, such as the spin-off of a subsidiary or business.

Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 27, Consolidated and Separate Financial Statements – Presentation of comparatives when applying the “pooling of interests” method

The IFRIC received a request for guidance on the presentation of comparative financial statements prepared in accordance with IFRS when applying the *pooling of interests* method for business combinations between entities under common control. Some entities report combined operations from the beginning of the period, which is consistent with specific guidance in U.S. GAAP. Others report combined operations only from the date of the common control transaction, based on guidance in IAS 27.26 that precludes the reporting of combined results for the pre-combination period in the receiving entities' financial statements.

The IFRIC noted that IFRS 3, *Business Combinations* (revised 2008) excludes from its scope “a combination of entities or businesses under common

control.” The IFRIC believes that resolving the issue would require interpreting the interaction of multiple IFRS. In December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control in the acquirer's consolidated and separate financial statements. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 32, Financial Instruments: Presentation – Application of the “fixed-for-fixed” condition

The IFRIC received requests for guidance on the application of paragraph 22 of IAS 32 which states that “except as stated in paragraph 22A, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument.” This is often referred to as the *fixed-for-fixed* condition.

The IFRIC identified that diversity may exist in the application of the fixed-for-fixed condition to situations other than the specific situations identified in the requests.

The 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. A key objective of this project is to develop a better distinction between equity and non-equity instruments including consideration of the current fixed-for-fixed condition in IAS 32. That project is expected to issue guidance in the first part of 2010. Therefore, the IFRIC decided not to add this issue to its agenda.

IAS 38, Intangible Assets – Amortization method

The IFRIC received requests for guidance on the meaning of *consumption of economic benefits* when determining the appropriate amortization method for an intangible asset with a finite useful life. The methods considered in the

submissions are the straight-line method and the unit of production method, including a revenue-based unit of production method. Also at issue is whether to look to revenue generated from the asset or to the asset itself when determining economic benefits to be amortized.

The IASB discussed intangible asset amortization methods in March 2008 during its deliberations on the *Annual Improvements* Exposure Draft published in 2007. Constituents had raised concerns about which method best reflects the consumption of future economic benefits. The IASB considered that amortization is an estimate that requires judgment and therefore the methods selected may differ. The IASB then concluded that the principle in IAS 38.98 is sufficiently clear.

At its November 2009 meeting the IFRIC noted that IAS 38.98 states that “the method used is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset...” The determination of the amortization method is therefore a matter of judgment. In addition, in accordance with paragraph 122 of IAS 1, *Presentation of Financial Statements*, significant judgments made in determining the amortization methods should be disclosed in the notes to the financial statements.

The IFRIC noted that any guidance it could give on making the judgments necessary to determine the amortization method would be in the nature of application guidance rather than an interpretation. Therefore, the IFRIC decided not to add the issue to its agenda.

IFRIC work in progress

IFRS 2, Share-based Payment – Classification of vesting conditions

The IFRIC received a status update on the requests for clarification on the classification of vesting conditions in a share-based payment. The staff

anticipates bringing this issue to the January 2010 meeting for further consideration by the IFRIC.

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

The IFRIC received a request to add an item to its agenda on providing guidance on whether a contract that has both option and non-option elements can be assessed as two separate contracts for the purpose of applying paragraphs 5-7 of IAS 39. The contract (a) obliges an entity to deliver (sell) at a fixed price a fixed number of units of a nonfinancial item that is readily convertible to cash and (b) provides the counterparty with the option to purchase also at a fixed price a fixed number of additional units of the same item. This type of contract provides the buyer with the flexibility to buy additional quantities of a commodity at a fixed price. If the contract is accounted for as a single unit, the entire contract, not just the optional portion, would be a derivative with changes in fair value recognized in profit and loss.

The IFRIC did not make any tentative decisions, but directed the staff to research the issue further.

IFRIC outstanding issues update

The IFRIC reviewed a summary of outstanding issues. With the exception of two issues, all requests received and considered by the staff were either discussed at this meeting, scheduled to be discussed at a future IFRIC meeting, or under consideration by the Board.

Future Committee meetings

The Committee held a meeting on January 7-8, 2010. The next Committee meeting is March 4-5, 2010.