



# On the Horizon for IFRS

August 15, 2009

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## **IFRIC issues May 2009 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 LASB.*

The International Financial Reporting Interpretations Committee has issued the May 2009 [IFRIC Update](#), which summarizes the Committee's meeting in London on May 7, 2009. Highlights of the meeting are discussed below.

## **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 LASB.*

At the March 2009 meeting, the IFRIC tentatively decided to defer a decision on whether to add seven issues to the agenda. The IFRIC reconsidered these issues at the May 2009 meeting.

#### IAS 12, Income taxes – Classification of tonnage taxes

The Committee received a request to consider whether a tax based on tonnage capacity could be an income tax in accordance with IAS 12. The Committee noted that the term *tonnage tax* is applied to a variety of tax jurisdictions. In some jurisdictions, shipping companies can choose to be taxed based on either tonnage transported, tonnage capacity, or a notional profit instead of based on the standard corporate jurisdictional income tax regulations; this choice may be irrevocable.

Previously, the Committee had noted that IAS 12 defines *income taxes* as taxes that are based on taxable profit and that the term *taxable profit* implies a notion of a net rather than a gross amount. Taxes based upon either tonnage transported or tonnage capacity is based on gross rather than net amounts and would not be considered to be income taxes in accordance with IAS 12. Taxes based upon a notional income derived from tonnage capacity are not based on the entity's actual income and expenses and would not be included within the tax expense line item in the statement of comprehensive income. However, the Committee also noted that, in accordance with paragraph 85 of IAS 1, *Presentation of Financial Statements*, an entity would present additional subtotals for such taxes in the statement of comprehensive income if that presentation is relevant to an understanding of its financial performance.

Given the requirements of IAS 12, the Committee decided not to add this issue to the agenda.

#### IAS 16, Property, Plant and Equipment – Disclosure of idle assets and construction in progress

The Committee received a request to consider the extent of required disclosures relating to property, plant and equipment temporarily idle and assets under construction when additional construction has been postponed.

The Committee noted the following:

- Paragraph 74(b) of IAS 16 indicates that an entity must disclose the amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction
- Paragraph 79(a) of IAS 16 encourages an entity to disclose the amount of property, plant and equipment that is temporarily idle
- Paragraph 112(c) of IAS 1 requires an entity to provide in the notes information that is not presented elsewhere in the financial statements that is relevant to their understanding

The Committee noted that disclosure regarding idle assets would be relevant currently due to the economic environment. Accordingly, the Committee expected that entities would provide information in addition to that specifically required by IAS 16 when idle assets or postponed construction projects were significant.

Given the requirements of IAS 16 and IAS 1, the Committee did not expect significant diversity in practice and decided not to add this issue to its agenda. However, the Committee made a recommendation that the IASB undertake a review of all disclosures that are encouraged (but not required) by IFRS with the objective of either confirming that they are required or eliminating them.

### IAS 38, Intangible Assets – Accounting for sales costs

The Committee received a request to clarify how a real estate developer should account for initial selling and marketing costs incurred during construction that relate to a specific real estate construction project, such as:

- Advertising expenses for the project
- Sales commission paid for selling the units
- Fees paid to the bank to list the property to enable buyers to get mortgages

IFRIC 15, *Agreements for the Construction of Real Estate*, states that revenue for the construction project described in the request would be recognized as a *sale of goods* in accordance with IAS 18, *Revenue* instead of as contract revenue in accordance with IAS 11, *Construction Contracts*.

The Committee noted the following:

- Selling costs cannot be capitalized if the real estate units are considered to be inventory in accordance with IAS 2, *Inventories*. Similarly, in accordance with IAS 16, *Property, Plant and Equipment*, these costs cannot be capitalized as property, plant and equipment unless they are directly attributable to preparing the asset to be used.
- Paragraph 20 of IAS 11, *Construction Contracts*, excludes selling costs from contract costs even if the specific construction project is within the scope of IAS 11
- Other standards conclude that some direct and incremental costs recoverable as a result of obtaining a specifically identifiable contract with a customer may be capitalized in narrow circumstances. However, none of those standards permit an entity to capitalize advertising or other costs incurred in attempting to obtain customer contracts.

The Committee indicated that it is not possible to reach a conclusion on the appropriate accounting for broad categories of initial selling and marketing expenses in all circumstances since the accounting for such costs varies depending on specific facts and circumstances. Accordingly, the Committee decided not to add this issue to the agenda.

### IAS 39, Financial Instruments: Recognition and Measurement – Participation rights and calculation of the effective interest rate

The Committee received a request to consider how an issuer should account for a financial liability that contains participation rights that cause the instrument holder to share in the net income and losses of the issuer. The holder receives a percentage of the issuer's net income and is allocated a proportional share of the issuer's losses. Losses are applied to the nominal value of the instrument to be repaid on maturity. Losses allocated to the holder in one period can be offset by profits in subsequent periods. The request assumed that the financial liability does not contain any embedded derivatives, is measured at amortized cost using the effective interest rate method, and does not meet the definition of a floating rate instrument.

The Committee noted the following:

- Paragraphs AG6 and AG8 of IAS 39 provide the relevant application guidance for measuring financial liabilities at amortized cost using the effective interest rate method
- It is inappropriate to analogize to the derecognition guidance in IAS 39 because the liability has not been extinguished

The Committee decided not to add this issue to its agenda since specific application guidance already exists.

#### IAS 39, Financial Instruments: Recognition and Measurement – Classification of failed loan syndications

The Committee received a request to consider whether a loan amount resulting from a loan syndication that the originator intends to sell in the near term must always be classified as held for trading. The question arises when loans are originated with an intention of syndication but the arranger fails to find sufficient commitments from other participants (failed syndications). The arranger then tries to sell the surplus loan amount to other parties in the near term rather than holding it for the foreseeable future.

The Committee noted the following:

- The terms *loans and receivables* and *financial asset* or *financial liability at fair value through profit or loss* are defined in paragraph 9 of IAS 39 and would determine the classification of a loan in such circumstances.
- The definition of *loans and receivables* explicitly requires a loan (or portion of a loan) that is intended to be sold immediately or in the near term to be classified as held for trading on initial recognition.
- Paragraph AG14 of IAS 39 describes characteristics that generally apply to financial instruments classified as held for trading. However, these general characteristics are not a prerequisite for all instruments the standard requires to be classified as held for trading.
- In accordance with paragraph 50D of IAS 39, an entity would be permitted to consider reclassifying a surplus loan amount that it no longer intends to sell.

Given the specific requirements in IAS 39, the Committee did not expect significant diversity in practice and therefore decided not to add this issue to its agenda.

#### IAS 41, Agriculture – Discount rate assumption used in fair value calculations

The Committee received a request to consider how an entity should determine an appropriate discount rate when the fair value of biological assets is estimated as the present value of expected net cash flows.

The Committee noted the following:

- The fair value measurement objective in IAS 41 is consistent with that in other standards. Paragraph 21 of IAS 41 was amended in May 2008 to clarify that an entity includes the net cash flows that market participants would expect the asset to generate in determining the present value of net cash flows.
- When an entity incurs an initial cost with respect to a biological asset, paragraph 24 of IAS 41 notes that cost sometimes approximates fair value. In that situation, an appropriate discount rate would result in a value that approximates initial cost.
- IAS 39 and other recently issued material by the IASB provides extensive guidance on estimating fair values for assets that do not have readily observable prices in active markets that would also be relevant for biological assets.

Given the guidance already available, the Committee did not expect significant diversity in practice and therefore decided not to add this issue to its agenda.

#### IFRIC 14, IAS 19–The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – voluntary prepayments

The Committee had previously noted that requirements in IFRIC 14 could produce unintended consequences in certain circumstances with respect to the treatment of voluntary prepaid contributions under a minimum funding requirement and decided to add this issue to the agenda in November 2008.

However, at the January 2009 IASB meeting the IASB decided to proceed with its own project to amend IFRIC 14 to address this issue. Accordingly, the Committee decided to remove this issue from its agenda.

### **Tentative agenda decisions**

At its May 2009 meeting, the Committee discussed the following issues and reached tentative decisions not to add these issues to its agenda (see [May 2009 IFRIC Update](#) for those tentative decisions). These issues were then reconsidered at the July 2009 IFRIC meeting where the Committee reached agenda decisions (see [“IFRIC agenda decisions”](#) below for a summary of the decisions reached at the July 2009 IFRIC meeting).

- IFRS 3, *Business Combinations* – Acquisition-related costs in a business combination
- IFRS 3, *Business Combinations* – Early Application of IFRS 3
- IAS 7, *Statement of Cash Flows* – Determination of cash equivalents
- IAS 27, *Consolidated and Separate Financial Statements* – Transaction costs for non-controlling interests
- IAS 28, *Investments in Associates* – Potential effect of IFRS 3, *Business Combinations* (as revised in 2008) and IAS 27, *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting
- IAS 28, *Investments in Associates* – Venture capital consolidations and partial use of fair value through profit or loss
- IAS 28, *Investments in Associates* – Impairment of investments in associates
- IAS 34, *Interim Financial Reporting* – Interim disclosures about fair value
- IAS 38, *Intangible Assets* – Compliance costs for REACH

- IAS 39, *Financial Instruments: Recognition and Measurement* – Hedging using more than one derivative as the hedging instrument
- IAS 39, *Financial Instruments: Recognition and Measurement* – Meaning of “significant or prolonged”
- IFRIC 12, *Service Concession Arrangements* – Scope of IFRIC 12
- IFRIC 18, *Transfers of Assets from Customers* – Applicability to the customer

### **IFRIC issues July 2009 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 July 2009 [IFRIC Update](#), which summarizes the Committee’s meeting in London on July 9, 2009. Highlights of the meeting are discussed below.

#### **Accounting for a debt to equity swap in a restructuring added to the agenda**

The Committee received a request to consider adding to its agenda an issue with respect to the application of IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 32, *Financial Instruments: Presentation*. When an entity issues its own equity instruments in settlement of debt (referred to as a *debt to equity swap*) in a restructuring, the question is whether the entity should recognize the equity instruments at the carrying amount of the liability or at the fair value of either the liability or the equity instruments issued.

The Committee noted the following:

Although IFRS do not contain specific guidance on accounting for a debt to equity swap, the swap could be analyzed as consisting of two transactions. The borrower first issues new equity shares to the lenders for cash and then lenders accept that amount of cash in full settlement of the liability. IAS 39 would then require an entity to recognize in profit or loss any gain or loss arising from the settlement of the liability. In addition, IAS 39 requires a gain or loss to be recognized in profit or loss when one liability is exchanged for another with substantially different terms.

- An entity's equity shares are treated as consideration in both IFRS 2, *Share-based Payment* and IFRS 3, *Business Combinations*.
- Although IFRS do not contain a general principle for the initial recognition and measurement of equity shares, guidance on specific transactions includes:
  - The amount allocated to the equity component on initial recognition of compound instruments is the residual after deducting the fair value of the financial liability component from the fair value of the entire compound instrument. (IAS 32.31 and.32)
  - No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of an entity's own equity instruments (*treasury shares*). (IAS 32.33).
  - For equity-settled share-based payment transactions, the entity measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received

(e.g. transactions with employees), the entity measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. (IFRS 2.10-23).

- The general principle included in IFRS is that equity is a residual and should be measured by reference to changes in assets and liabilities (the Framework and IFRS 2). Therefore, the equity instruments should be measured at the fair value of the liability settled. Given that there may be practical difficulties in measuring the liability, the IFRIC concluded that equity instruments issued in a debt to equity swap should be measured at the fair value of the liability settled or the fair value of the equity instruments issued, whichever is more reliably determinable.

Although this issue is within the scope of the IASB's project on Financial Instruments with Characteristics of Equity, the IFRIC concluded that the urgency and importance of the issue warranted the development of an interpretation. Therefore, the Committee reached a decision to add this issue to its agenda and to develop a draft interpretation for public comment and may convene a special Committee meeting prior to the next scheduled meeting in September 2009.

(**Note:** A special IFRIC meeting was held on August 4, 2009 to discuss the draft interpretation. The minutes of the meeting are summarized in the [August 2009 IFRIC Update](#). On August 6, 2009, the IASB issued the [Draft Interpretation D25, Extinguishing Financial Liabilities with Equity Instruments](#). The comment period ends October 5, 2009.)

#### **Committee discusses classification of vesting conditions**

The Committee received a request to consider adding to its agenda a project to clarify how the examples of non-vesting conditions in paragraph IG24 of IFRS 2 should be applied.

The IFRIC reached a decision that further research and analysis was needed to determine:

- Whether the issues identified in the submission relate to the interaction of service conditions with other conditions
- Whether these types of transactions are widespread and the extent of diversity in practice

The Committee will continue its discussion of whether this project should be added to its agenda at a future meeting.

#### **Committee discusses rights issues denominated in a foreign currency**

The Committee received a request to consider the application of its 2005 conclusion that a call option entitling the holder to receive a fixed number of the entity's shares for a fixed amount of foreign currency should be accounted for as a derivative liability. The question raised in the current request is whether that conclusion also applies to a rights issue in which the exercise price is fixed in a foreign currency. In reaching its 2005 conclusion the Committee had discussed the issue in the context of convertible bonds denominated in a currency other than the entity's functional currency (foreign currency).

In accordance with IAS 32, in a conventional rights issue an entity issues rights, which entitle the holder to purchase a fixed number of additional shares at a fixed price pro rata to its existing shareholders. Because the rights entitle the holder to receive a fixed number of shares for a fixed amount of cash, the entity recognizes the rights as equity instruments that would not be remeasured.

An entity may be required to issue the rights in a currency other than its functional currency if, for example, it is listed on exchanges in more than one jurisdiction. In that case, the amount of cash to be received from the issue of the shares would not be fixed in terms of the functional currency. In accordance

with the IFRIC's 2005 conclusion, such a right is considered to be a derivative liability and is therefore remeasured through profit or loss until the right is exercised or expires. The Committee noted that this conclusion results in the entity's profit or loss being affected by changes in its own share price as well as by changes in foreign exchange rates.

In the IFRIC's view, the rights issue is not similar to the convertible bonds issue that was discussed in 2005 and should therefore be classified as equity instruments for the following reasons:

- The rights must be allocated pro rata to existing shareholders, as opposed to convertible bonds that may be issued to any investor
- The rights are priced in the various currencies to treat all shareholders equivalently, regardless of the exchange the shares/rights are traded on. In other words, shareholders receive rights with an exercise price denominated in the currency in which their shares trade. Convertible bonds could be denominated in any currency the entity chooses.

However, the IFRIC noted that, consistent with its conclusion in 2005, IAS 32 would not permit the rights to be classified as equity instruments.

The Committee indicated that many entities are raising capital by issuing rights in the current economic environment, so the request has immediate, widespread practical relevance. The Committee reached a decision to recommend that the IASB amend IAS 32 to permit rights issued pro rata to existing shareholders to be classified as equity instruments if the exercise price is fixed in any currency. The Committee asked the staff to develop a proposal for the IASB to consider at its meeting in July 2009.

The Committee also asked the staff to prepare a paper for the next IFRIC meeting discussing other questions that constituents have about the application of the “fixed for fixed” requirement in IAS 32.

(**Note:** On August 6, 2009, the IASB issued the [Exposure Draft, Classification of Rights Issues: Proposed amendment to IAS 32](#). The comment period ends September 7, 2009.)

#### **IFRIC agenda decisions**

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

#### **IFRS 3, Business Combinations – Acquisition-related costs in a business combination**

The Committee received requests to consider clarification of the treatment of an acquirer’s acquisition-related costs incurred prior to the adoption of IFRS 3 (as revised in 2008) with respect to a business combination accounted for in accordance with the revised standard.

The revised IFRS 3 indicates that acquisition related costs are not part of the exchange transaction between the acquirer and the acquiree (or its former owners) since they are not considered part of the business combination. Therefore, except for costs to issue debt or equity securities that are recognized in accordance with IAS 32 and IAS 39, the revised IFRS 3 requires an entity to account for acquisition related costs as expenses in the periods in which the costs are incurred and the services are received. In contrast, IFRS 3 (as issued in

2004) required the acquisition-related costs to be included in the cost of a business combination.

Since more than one interpretation of how the requirements of the two IFRSs interact is possible, the Committee concluded that an entity should disclose its accounting policy for such costs and the amount recognized in the financial statements.

Given that this is a transitional issue that will not arise for accounting periods beginning on or after July 1, 2009, the IFRIC decided not to add this issue to its agenda.

#### **IFRS 3, Business Combinations – Early Application of IFRS 3**

The Committee received requests to consider clarification of whether IFRS 3 (as revised in 2008) must be applied from the beginning of an annual period if it is adopted early.

The Committee noted that paragraph 64 of IFRS 3 (as revised in 2008) requires the revised standard to be applied for the whole annual period if it is applied early. The IFRIC also noted that the question of whether an entity can decide during a reporting period to apply a revised IFRS early is not unique to the revised IFRS 3. This question should be answered in accordance with the general principles included in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, if an entity chooses to apply the revised standard early, it must apply it to all business combinations that occurred in the annual period in which the IFRS is first applied.

Given that relevant guidance on the early application of the revised IFRS 3 exists in IFRS, the Committee did not expect diversity in practice and therefore decided not to add this issue to its agenda.

#### IAS 7, Statement of Cash Flows – Determination of cash equivalents

The Committee received a request to consider whether investments in shares or units of money market or other funds that are redeemable at any time can be classified as cash equivalents.

The Committee noted that IAS 7.7 states that the purpose of holding cash equivalents is to meet short-term cash commitments. The critical criteria in the definition of cash equivalents described in IAS 7.6 are the requirements that cash equivalents be "convertible to known amounts of cash" and "subject to an insignificant risk of changes in value." The IFRIC noted the following:

- That the first criterion means that the amount of cash that will be received must be known at the time of the initial investment, i.e. the units cannot be considered cash equivalents simply because they can be converted to cash at any time at the then market price in a liquid market
- That an entity would have to satisfy itself that any investment was subject to an insignificant risk of changes in value for it to be classified as a cash equivalent

Given the guidance in IAS 7, the Committee did not expect significant diversity in practice because the purpose of holding the instrument and the satisfaction of the criteria should both be clear from its terms and conditions. Accordingly, the Committee decided not to add this issue to its agenda.

#### IAS 27, Consolidated and Separate Financial Statements – Transaction costs for non-controlling interest

The Committee received a request to consider clarification of the guidance in IAS 27, *Consolidated and Separate Financial Statements* (as amended in 2008), for accounting for transaction costs incurred in the acquisition or disposal of a non-controlling interest (NCI) that does not result in the loss of control of an entity.

The Committee noted that the amended IAS 27 requires transactions with NCI to be treated as equity transactions. Paragraphs 106(d)(iii) and 109 of IAS 1, *Presentation of Financial Statements*, state that changes in equity resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisition of the entity's own equity instruments, and dividends) and the transaction costs directly related to such transactions are not part of the income and expense generated by the entity's activities during that period.

Given that relevant guidance already exists in IFRS applicable to such transactions, the Committee did not expect significant diversity in practice and therefore decided not to add this issue to its agenda.

**IAS 28, Investments in Associates – Potential effect of IFRS 3 Business Combinations (as revised in 2008) and IAS 27, Consolidated and Separate Financial Statements (as amended in 2008) on equity method accounting**  
The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) had added to its agenda EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations," which addresses several issues resulting from the joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for noncontrolling interests that resulted in the issuance of IFRS 3 (as revised in 2008), IAS 27 (as amended in 2008), Statement 141(R), *Business Combinations*, and Statement 160, *Noncontrolling Interests in Consolidated Financial Statements*.

The IFRIC discussed two of the issues considered in EITF 08-6 as follows:

- *Determination of the initial carrying value of an equity method investment:* The Committee noted that IFRS require assets not measured at fair value through profit or loss to be measured at cost at initial recognition. Generally stated, cost includes the purchase price and other costs

directly attributable to the acquisition or issuance of the asset such as professional fees for legal services, transfer taxes and other transaction costs. Therefore, the cost of an investment in an associate determined in accordance with IAS 28.11 includes its purchase price and any necessary directly attributable expenditure.

- *Accounting for an equity method investee's issue of shares:* The Committee noted that IAS 28.19A provides guidance on the accounting for amounts recognized in other comprehensive income when the investor's ownership interest is reduced but the entity retains significant influence. However, there is no specific guidance on the recognition of a gain or loss resulting from a reduction in the investor's ownership interest resulting from the issue of shares by the associate. The Committee also noted that reclassification of amounts to profit or loss from other comprehensive income is generally required as part of determining the gain or loss on a disposal. IAS 28.19A applies to all reductions in the investor's ownership interest, no matter the cause.

Given the existing guidance in IFRS, the Committee did not expect significant diversity in practice and therefore decided not to add these issues to its agenda.

#### **IAS 28, Investments in Associates – Venture capital consolidations and partial use of fair value through profit or loss**

The Committee received a request to consider providing guidance on an issue arising from IAS 28 that when a group has an investment in an associate and holds part of the investment in a subsidiary that is an investment-linked insurance fund (or mutual fund, unit trust, or venture capital organization). In accordance with the scope exclusion in IAS 28, the separate financial statements of the investment-linked insurance fund subsidiary would designate the investment in the associate at initial recognition as at fair value through profit or loss in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

The other part of the investment in the same associate held by another group entity would account for the investment in accordance with IAS 28 using the equity method (or at cost, if certain conditions are met). The issue is whether both measurement bases can be used simultaneously in the consolidated financial statements.

IAS 28.6 requires an entity to determine the existence of significant influence considering aggregate holdings, both direct and indirect. Paragraph 24 of IAS 27, *Consolidated and Separate Financial Statements* (as amended in 2008), requires consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. However, the Committee noted that some IFRS allow different treatment of similar items when those items are used differently.

Since there is significant diversity in practice on this issue due to apparent conflicts within IAS 28 and between IAS 28 and other standards, the Committee reached a decision that it should be referred to the IASB. The Committee decided not to add this issue to its agenda.

#### **IAS 28, Investments in Associates – Impairment of investments in associates**

The Committee received a request to consider providing guidance on how impairments of investments in associates should be determined in the separate financial statements of the investor.

IAS 36, *Impairment of Assets*, provides clear guidance that its requirements apply to impairment losses of investments in associates when the associate is accounted for using the equity method. However, in its separate financial statements, the investor may account for its investment in an associate at cost. The Committee concluded that it is not clear whether in its separate

financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39, *Financial Instruments: Recognition and Measurement*.

Given the existing guidance, the Committee concluded that significant diversity is likely to exist in practice on this issue and that it should be referred to the IASB. The Committee decided not to add this issue to its agenda.

#### **IAS 34, Interim Financial Reporting – Interim disclosures about fair value**

The Committee received a request to consider providing guidance on whether updates to annual fair value disclosures are required in condensed interim financial reports. The Committee noted that when an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, in accordance with IAS 34 its interim financial report should provide an explanation of the event or transaction and update the information included in the financial statements for the last annual financial period.

The Committee concluded that IAS 34 provides sufficient guidance to enable entities to decide whether updates to fair value disclosures are required in interim financial reports. The Committee reached a decision not to add the issue to its agenda as it did not expect diversity in practice.

#### **IAS 38, Intangible Assets – Compliance costs for REACH**

The Committee received a request to consider providing guidance on the treatment of the costs of compliance with the requirements of the European Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). The Regulation came into force in part on June 1, 2007 and companies have begun to account for the first compliance costs.

At its meetings in March and May 2009 the IFRIC considered detailed background information, an analysis of the issue, current practice and an assessment of the issue against its agenda criteria. The IFRIC noted that IAS 38 includes definitions and recognition criteria for intangible assets that provide guidance to enable entities to account for the costs of complying with REACH.

The Committee concluded that any guidance it could develop beyond that already given would be more in the nature of implementation guidance than an interpretation. The Committee decided not to add this issue to its agenda.

#### **IAS 39, Financial Instruments: Recognition and Measurement – Hedging using more than one derivative as the hedging instrument**

The Committee received a request to consider providing application guidance for IAS 39 Q&A F.2.1, “Whether a derivative can be designated as a hedged item” when an entity issues fixed interest rate foreign currency debt and then swaps it into floating interest rate local currency debt using a cross currency interest rate swap. The entity also enters into a local currency pay-fixed, receive-variable interest rate swap, which has a shorter duration than that of the cross-currency interest rate swap. The question is whether the guidance in Q&A F.2.1 prevents cash flows attributable to a derivative from being designated as the hedged cash flow in a hedge relationship.

The Committee noted that IAS 39.77 states that two or more derivatives may be viewed in combination and jointly designated as the hedging instrument, including when the risk(s) arising from some derivatives offset(s) those arising from others. Accordingly, the Committee noted that although IAS 39 permits a combination of derivatives to be jointly designated as the hedging instrument in a hedging relationship, it does not

allow a *synthetic hedged item* created by combining one derivative with a non-derivative financial instrument to be designated as the hedged item in a hedging relationship with another derivative.

Given the requirements in IAS 39, the Committee concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation and therefore decided not to add this issue to its agenda.

#### IAS 39, Financial Instruments: Recognition and Measurement – Meaning of significant or prolonged

The Committee received a request to provide guidance on the meaning of *significant or prolonged* (as described in IAS 39.61) in recognizing impairment on available-for sale equity instruments. Since there is significant diversity in practice on this issue, the Committee concluded that some of this diversity is the result of implementation that is inconsistent with the requirements of IAS 39. For example:

- IAS 39 cannot be read to require that the decline in value must be both significant and prolonged. Thus, either a significant or a prolonged decline is sufficient to require the recognition of an impairment loss. The Committee noted that in finalizing the 2003 amendments to IAS 39, the IASB deliberately changed the word from “and” to “or”.
- IAS 39.67 requires an entity to recognize an impairment loss on available-for-sale equity instruments if there is objective evidence of impairment. IAS 39.61 states that a *significant or prolonged* decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Accordingly, the Committee concluded that when such a decline exists, recognition of an impairment loss is required.

- An entity cannot conclude that the investment is not impaired because a decline in the value of an investment is in line with the overall level of decline in the relevant market.
- The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing. Accordingly, the Committee concluded that an anticipated market recovery is not relevant to the assessment of *significant or prolonged*.
- Paragraph AG83 and Q&A E.4.9 in the Guidance on Implementing IAS 39, “Impairment of nonmonetary available-for-sale financial asset” both discuss the recognition of financial instruments denominated in foreign currencies. The Committee concluded that it is inappropriate to assess *significant or prolonged* in the currency in which the equity investment is denominated. That assessment must be made in the functional currency of the entity holding the instrument because that is how any impairment loss is determined.

The Committee noted that the determination of what constitutes a significant or prolonged decline is a matter of fact that requires the application of judgment. The Committee also noted that this is true even though an entity may develop internal guidance to assist it in applying that judgment consistently. The IFRIC further noted that an entity would provide disclosure about the judgments it made in determining the existence of objective evidence and the amounts of impairment in accordance with paragraphs 122 and 123 of IAS 1, *Presentation of Financial Statements*, and paragraph 20 of IFRS 7, *Financial Instruments: Disclosures*.

Although the Committee acknowledged that significant diversity exists in practice, it noted that the IASB has accelerated its project to develop a

replacement for IAS 39 and expects to issue a new standard in the near future. The Committee decided not to add this issue to its agenda.

#### **IFRIC 12, Service Concession Arrangements – Scope of IFRIC 12**

The Committee received requests to consider providing guidance on the application of IFRIC 12 for the following:

- The requirement that the grantor must control or regulate the price the operator can charge to users of the service provided by the infrastructure: The guidance in paragraphs AG2 and AG3 of IFRIC 12 on the requirement that the grantor controls or regulates the price of the service states that the grantor does not need to have complete control of the price. However, the IFRIC noted that any reviews or approvals by the grantor required by the agreement would generally be sufficient to meet this requirement, and it would be inappropriate to assume that they are perfunctory or “rubber stamps” that can be disregarded.
- *The accounting for aspects of the arrangement other than the infrastructure:* When redeliberating IFRIC 12, the Committee decided to focus on the guidance on accounting for the infrastructure but provided references to other IFRS that apply to arrangements not within its scope. IFRIC 12 also refers to other IFRS for accounting for aspects of the arrangement other than the infrastructure, such as repair and maintenance obligations and revenue recognition.

Given the existing guidance in IFRS, the Committee concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. The Committee decided not to add the issues to its agenda.

#### **IFRIC 18, Transfers of Assets from Customers – Applicability to the customer**

The Committee received a request to consider providing guidance on how a customer would account for a transfer of assets within the scope of IFRIC 18 for the recipient.

The Committee noted the following:

- IFRIC 18 only addresses the accounting by the recipient of the transferred assets
- The accounting by customers transferring assets should be consistent with the principles in IFRIC 18 that, in a normal trading transaction, transfers of assets will include exchanges of other goods, services or both.
- Other IFRS provide relevant guidance for accounting for the goods or services received or given up in the exchange transaction

Given that IFRS already provide relevant guidance, the Committee did not expect significant diversity in practice and therefore, decided not to add this issue to its agenda.

#### **Tentative agenda decisions**

After reviewing the following issues, the Committee made the following tentative decisions. These issues will be reconsidered at the September 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 shall 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 equivalent to minority interest would be measured at nil on acquisition.

The Committee concluded that the measurement choice should apply only to instruments currently entitled to a proportionate share of the acquiree's net assets. 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 awards to replace such 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 the write-down of a disposal group to the lower of its fair value less costs to sell and its carrying amount when the write-down exceeds the carrying amount of non-current assets.

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

The Committee noted that in the current economic environment this issue could be widespread and 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 as a matter of priority to address the issue.

### 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 a specific asset other than a qualifying asset as defined in IAS 23.14.

The Committee noted the following:

- Because IAS 23.14 refers only to qualifying assets, some conclude that borrowings related to specific assets other than qualifying assets cannot be excluded from determining the capitalization rate for general borrowings. Others reach a different conclusion due to the general principle in IAS 23.10 which states that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are 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. The Committee also noted that the IASB will consider whether to add this issue to the annual improvements project and therefore, decided not to add this issue to its agenda.

### Future Committee meetings

The next Committee meeting is September 3-4, 2009.