IFRIC Update

From the IFRS Interpretations Committee

September 2010

Welcome to the IFRIC Update

IFRIC Update is published as a convenience to the IASB's constituents.

All conclusions reported are tentative and may be changed or modified at future IFRS Interpretations Committee meetings.

Decisions become final only after the Committee has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on **2 and 3 September**, when it discussed:

- Current agenda:
  - Vesting and non-vesting conditions
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress

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Future IFRS Interpretations Committee meetings

The next meetings in 2010 are:
2 and 3 September
4 and 5 November

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Current agenda:

The Interpretations Committee discussed the following issues which are on its current agenda.

Vesting and non-vesting conditions

At the September 2010 meeting, the Committee completed its discussions on the technical issues included in this project. Specifically, the Committee tentatively decided that:

- a non-compete provision should be presumed to be a contingent feature and
- a performance target should fully coincide with an explicit or implicit service requirement for the entire period between grant date and the performance target date in order to constitute a performance condition.

The Committee discussed different options, including interpretation, annual improvement and separate amendment, to proceed with the agenda project. The Committee decided to ask the Board for its recommendations on how to proceed and will consider the Board's recommendations at a future Committee meeting.

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IFRS Interpretations Committee agenda decisions

The following explanation is published for information only and does not change existing IFRS

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

IFRS 1 *First-time Adoption of International Financial Reporting Standards* —Repeat application of IFRS 1

The Committee received a request identifying an entity that had previously reported in accordance with IFRSs to meet foreign listing requirements, and had applied IFRS 1. However, the entity then delisted and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction change from national GAAP to IFRSs, and the entity is again required to present its financial statements in accordance with IFRSs. The request asks the Committee to clarify how the entity should transition back to reporting in accordance with IFRSs, and specifically whether it can apply IFRS 1 for a second time.

The Committee observed that the scope of IFRS 1 requires an entity to apply the standard in its first IFRS financial statements. Paragraph 3 of IFRS 1 provides examples of when an entity's financial statements are considered to be its first IFRS financial statements. These examples are based upon assessing whether the entity's most recent previous financial statements were presented in accordance with IFRSs.

The Committee noted that an entity is required to apply IFRS 1 for a second time in the circumstances described. However, the Committee observed that the scope of IFRS 1 should be made clearer.

Consequently, the Committee decided not to add this issue to its agenda. However, the Committee decided to recommend that the Board should clarify the guidance relating to the repeat application of IFRS 1 as part of *Annual Improvements*.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Repayments of investments and foreign currency translation reserve

The Committee received a request for guidance on the reclassification of the foreign currency translation reserve (FCTR) when a repayment of a foreign investment occurs. The request specifically sought guidance on whether FCTR should be recycled for transactions in which there is a reduction in:

- the investor's percentage equity ownership in the investee (a relative reduction); or
- the absolute investment in the investee, even if there is no reduction in the proportionate equity ownership interest. A reduction in ownership may be relative, absolute or both.

The Committee noted that paragraph 48D of IAS 21 requires that an entity must treat 'any reduction in an entity's ownership interest in a foreign operation' as a partial disposal, apart from those reductions in paragraph 48A that are accounted for as disposals. How an entity applies the requirements in paragraph 48D is largely dependent on whether it interprets 'any reduction in an entity's ownership interest in a foreign operation' to mean an absolute reduction, a proportionate reduction, or both.

The Committee considers that different interpretations could lead to diversity in practice in the application of IAS 21 on the reclassification of the FCTR when repayment of investment in a foreign operation occurs. However, the Committee [decided] neither to add this issue to its agenda nor to recommend the Board to address this issue through *Annual Improvements* because it did not think that it would be able to reach a consensus on the issue on a timely basis. The Committee recommends that the IASB should consider this issue within a broad review of IAS 21 as a potential item for its post-2011 agenda.

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IFRS Interpretations Committee tentative agenda decisions

The Committee reviewed the following matters and tentatively decided that they should not be added to the Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Committee's agenda, will be reconsidered at the Committee meeting in November 2010.

Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to communicate those concerns by 10 October 2010 by email to: ***ifric@ifrs.org****. Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

IFRS 2 *Share-based Payment* —Share-based payment awards settled net of tax withholdings

The Committee received a request to consider the classification of a share-based payment transaction in which the entity withholds a specified portion of the shares that would otherwise be issued to the counterparty upon exercise (or vesting) of the share-based payment award. The shares are withheld by the entity in return for settling the counterparty's tax withholding obligation associated with the share-based payment. The request received by the Committee asked whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled. Under US GAAP, such arrangements do not require liability classification for any portion of the share-based payment award.

The Committee noted that the definitions in Appendix A *Defined terms* of IFRS 2 of 'cash-settled share-based payment transaction' and 'equity-settled share-based payment transaction' provide that an award is classified as cash-settled if the entity incurs a liability to transfer cash or other assets as a result of acquiring goods or services. In the circumstances considered by the Committee, cash is transferred to the tax authority, in settlement of the counterparty's tax obligation, in respect of the shares withheld.

The Committee noted that IFRS 2 provides sufficient guidance to address this issue and that it does not expect diversity in practice. Consequently, the Committee [decided] not to add the issue to its agenda. Additionally, the Committee recommended that the issue should be reconsidered by the Board as part of its post-implementation review of IFRS 2 to determine if the introduction of an exception in IFRS 2, to permit equity-settled classification of the portion of the share-based payment withheld, would be appropriate.

IAS 1 *Presentation of Financial Statements* — Current /non-current classification of a callable term loan

The Committee received a request on the classification of a liability as current or non-current when the liability is not scheduled for repayment within twelve months after the reporting period, but may be callable by the lender at any time without cause.

The Committee notes that paragraph 69(d) of IAS 1 requires that a liability must be classified as a current liability if the entity does not have the unconditional right at the reporting date to defer settlement for at least twelve months after the reporting period.

The Committee noted that IAS 1 provides sufficient guidance on the presentation of liabilities as current or non-current and that it does not expect diversity in practice. Consequently, the Committee [decided] not to add the issue to its agenda.

IAS 19 *Employee Benefits* — Accounting for a statutory employee profit sharing arrangement

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

The Committee noted that although such a statutory employee profit sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition in IFRSs of an employee benefit and is required to be accounted for in accordance with IAS 19.

The Committee observed that any amounts that will be payable to, or receivable from, employees, relating to temporary differences between accounting and taxable profit, similar to those defined in IAS 12 *Income Taxes*, relate to future services to be provided by the employee. However, the Committee noted that the objective of IAS 19 is that an entity is only required to recognise a liability when an employee has provided service, as reflected in the recognition requirements of paragraph 128 of IAS 19.

The Committee noted that the statutory employee profit-sharing arrangement described in the request should be accounted for in accordance with IAS 19, and that IAS 19 provides sufficient guidance on amounts that should be recognised and measured, with the result that significantly divergent interpretations are not expected in practice. Consequently, the Committee [decided] not to add this issue to its agenda.

IAS 32 *Financial Instruments: Presentation* — Put options written over non-controlling interests

The Committee received a request for guidance on how an entity should account for changes in the carrying amount of a financial liability for a put option, written over shares held by a non-controlling interest shareholder ('NCI put'), in the consolidated financial statements of a parent entity. The request focuses on the accounting for an NCI put 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 Committee observed that paragraph 23 of IAS 32 requires the financial liability recognised for a NCI put to be subsequently measured in accordance with IAS 39. The Committee also observed that paragraphs 55 and 56 of IAS 39 require changes in the carrying amount of financial liabilities to be recognised in profit or loss. However, the Committee noted that additional accounting concerns exist relating to the accounting for NCI puts.

The Committee noted that these additional accounting concerns would be best addressed as part of the Board's *Financial Instruments with Characteristics of Equity* (FICE) project. Consequently, the Committee [decided] not to add this issue to its agenda but to recommend that the Board should address these additional accounting concerns as part of the FICE project. The Committee also observed that it would expect entities to apply the guidance in IAS 1 *Presentation of Financial Statements* in determining whether additional information relating to the accounting for NCI puts should be disclosed in the financial statements, including a description of the accounting policy used.

IAS 36 *Impairment of Assets* — Calculation of value in use

The Committee received a request for clarification on whether estimated future cash flows expected to arise from dividends, that are calculated using dividend discount models (DDMs), are an appropriate cash flow projection when determining the calculation of value in use of a cash-generating unit (CGU) in accordance with paragraph 33 of IAS 36.

The Committee noted that paragraphs 30–57 in IAS 36 provide guidance on the principles to be applied in calculating value in use of a CGU. The Committee observed that calculations using DDMs may be appropriate when calculating value in use of a single asset, for example when determining whether an investment is impaired in the separate financial statements of an entity. However, the Committee observed that calculations using DDMs would rarely be appropriate when calculating value in use of a CGU in consolidated financial statements. That is, the cash flows used to calculate value in use of a CGU in the consolidated financial statements may be different to the cash flows used to calculate value in use of an investment in the separate financial statements. For example, the cash flows associated with liabilities are usually excluded from the value in use of a CGU.

The Committee noted that the current principles in IAS 36 relating to the calculation of value in use of a CGU are clear and that any guidance it could provide would be in the nature of application guidance. Consequently, the Committee [decided] not to add the issue to its agenda.

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Issues considered for *Annual Improvements*

The Committee assists the IASB in Annual Improvements *by reviewing proposed improvements to IFRSs and making recommendations to the Board. Specifically, the Committee involvement includes reviewing and deliberating issues for their inclusion in future exposure drafts of proposed* Improvements to IFRSs *and deliberating the comments received on the exposure drafts. When the Committee has reached consensus on an issue included in* Annual Improvements*, the recommendation (including finalisation of the proposed amendment or removal from* Annual Improvements*) will be* *presented to the Board for discussion, in a public meeting, before being finalised. Approved* Improvements to IFRSs *(including exposure drafts and final standards) are issued by the Board.*

Issues recommended for inclusion in the 2009— 2011 cycle for *Annual Improvements*

At its meeting in September 2010, the Committee deliberated the following issues and recommended the Board to add them to *Annual Improvements*. The Committee's recommendation will be submitted to the Board for discussion at a future Board meeting. If this issue is confirmed by the Board it will be included in the exposure draft of proposed *Improvements to IFRSs* expected to be published in October 2010. The issue discussed was:

IAS 1 *Presentation of Financial Statements* — Comparatives in financial statements

At its meeting in May 2010, the Committee discussed issues in IAS 1 related to the requirements for comparative information specifically when an entity provides some, but not all, individual financial statements beyond the required comparative information.

At the September 2010 Committee meeting, following an analysis presented by staff, the Committee recommended that the Board should amend IAS 1 to clarify the requirements for comparative information as follows:

- Only one comparative period is required for a complete set of financial statements. Presenting one or more financial statements for additional comparative periods is acceptable, provided it is not misleading. That is, any additional financial statement presented must be prepared in accordance with current IFRSs and must be presented with the same prominence as the required financial statements.
- An opening statement of financial position for that one comparative period is the only additional statement that an entity is required to present to be in compliance with IFRSs when there is a change in accounting policy, restatement or reclassification.

IAS 24 *Related Party Disclosures* — Key management personnel

The Committee received a request asking whether key management personnel (KMP), as defined in IAS 24 *Related Party Disclosures*, can include an entity as opposed to individuals. The issue arises specifically when a reporting entity hires key management services from a separate management entity. A second question raised is whether the reporting entity should disclose the remuneration paid by the management entity to the individuals providing the KMP services for the reporting entity, or the service fees paid by the reporting entity to the management entity for the KMP services.

The Committee recommends that the Board should amend, within *Annual Improvements*, the definition of a related party in IAS 24 to clarify that a management entity that provides KMP services to a reporting entity is deemed to be identified as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity would be disclosed. The Committee also recommends that the individuals who are employees or directors of the management entity and are acting as KMP of the reporting entity should not be identified as a related party (unless they qualify as related parties for other reasons). The revised definition would apply to the management entity's parent, its subsidiaries and its fellow subsidiaries.

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

The Committee deliberated two additional issues for consideration within *Annual Improvements*. The Committee decided not to recommend the Board to add the following issues to *Annual Improvements*:

IAS 1 *Presentation of Financial Statements* — Encouraged versus required disclosures

The Committee decided at its meeting in May 2009 to recommend that the Board should undertake a review of all disclosures encouraged (but not required) by IFRSs with the objective of either confirming that they are required or eliminating them. Following the subsequent involvement of the Committee in *Annual Improvements* the issue was presented for discussion at this Committee meeting.

The Committee was informed that current Board projects are proposing the inclusion of disclosure principles in IFRSs, supplemented by example disclosures. In light of this approach to disclosure requirements, the Committee assessed the issue against *Annual Improvements* current criteria of non-urgent but necessary.

The Committee decided that it was not necessary to address this issue and that the criteria for including it within *Annual Improvements* were not met. Consequently, the Committee decided to propose that the Board should not add this issue to *Annual Improvements*.

IAS 36 *Impairment of Assets* — Accounting for impairment testing of goodwill when non-controlling interests are recognised

The Committee considered a request for clarification of guidance relating to how an entity accounts for impairment testing of goodwill when non controlling interest (NCI) is recognised. The request asked the Committee to consider whether to propose an amendment to the guidance in IAS 36 as part of *Annual Improvements* to clarify requirements relating to:

- calculating the 'gross up' of the carrying amount of goodwill when partial goodwill is recognised because NCI is measured on a proportionate share basis;
- allocation of impairment losses between the parent and NCI; and
- reallocation of goodwill between NCI and controlling interests after a change in a parent's ownership interest in a subsidiary that does not result in a loss of control.

Each of these issues arises in one or more of the following situations:

- both NCI, measured on a proportionate share, rather than fair value basis, and non-present ownership interests ('NPOI') exist; or
- goodwill is allocated between the parent and NCI on a basis that is disproportionate to the percentage of equity owned by the parent and the NCI shareholders (eg because of the existence of a control premium); or
- there are subsequent changes in ownership between the parent and NCI shareholders, but the parent maintains control.

The Committee decided not to propose an amendment to address these issues, because of concerns relating to possible unintended consequences of making any changes, and recommended that the Board should consider the implication of these issues as part of the IFRS 3 post-implementation review.

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IFRS Interpretations Committee work in progress

IFRS 2 *Share-based Payment* — Accounting for share-based payment awards upon an entity's termination of an employee's employment

The Committee received a request for guidance on the accounting treatment of a share-based payment transaction in the event of the entity's termination of employment of the employee during the vesting period of the share-based payment award. The request asks whether the effect resulting from the entity's termination of employment of the employee should be accounted for as a forfeiture or a cancellation.

The Committee tentatively decided that if an employee is unable to satisfy a service condition, for any reason, including termination of employment, the share-based payment award should be treated as a forfeiture rather than as a cancellation.

The Committee noted that this issue may be addressed in conjunction with the Committee's current project on *Vesting and Non-vesting Conditions*. The Committee has requested guidance from the Board on how to proceed with the Committee's *Vesting and Non-vesting Conditions* project and the Committee will continue its deliberations on this issue in light of the Board's guidance.

IAS 12 *Income Taxes* — Recognising deferred tax assets for unrealised losses on available-for-

sale debt securities

In May 2010, the Committee discussed a request for guidance relating to how an entity determines, in accordance with IAS 12, whether to recognise a deferred tax asset relating to unrealised losses on available-for-sale debt securities ('AFS debt securities'). The request asks if an entity's ability and intent to hold the AFS debt securities until the unrealised losses reverse is akin to a tax planning opportunity. If so, it raises the question of whether recognition of a deferred tax asset relating to the unrealised losses can be assessed separately from the recognition of other deferred tax assets. In the May 2010 IFRIC *Update*, the Committee published the tentative agenda decision noting that IAS 12 provides sufficient guidance on the recognition of deferred tax assets relating to AFS debt securities and that it did not expect diversity in practice. At the July 2010 meeting, the Committee discussed responses received on this tentative agenda decision. The Committee continued to support the intent of the views expressed in the tentative agenda decisions in relation to the specific fact pattern presented to the Committee. However the Committee requested that the staff should present revised wording for the agenda decision at the next meeting, clarifying the situation addressed and the decisions made by the Committee.

As a result of further comment letters received on this issue, the staff conducted various outreach meetings, including discussions with the respondents. At the September 2010 meeting, the staff presented an overview of this outreach. The Committee agreed that the staff should bring an updated analysis of this issue to the next Committee meeting, together with a staff recommendation on the next steps of the project, including consideration of clarifying IAS 12 to address this issue. Go to the top of this page

Committee outstanding issues update

There are no outstanding issues. All requests received and considered by the staff to date were discussed at this Committee meeting.

Future IFRS Interpretations Committee meetings: 2010 — 2011

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

- **4 and 5 November 2010**
- **6 and 7 January 2011**
- **10 and 11 March 2011**
- **5 and 6 May 2011**
- **7 and 8 July 2011**
- **8 and 9 September 2011**
- **3 and 4 November 2011**

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB website at www.ifrs.org before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website at:
http://www.ifrs.org/How+we+develop+Interpretations/Propose+an+agenda+item.htm.

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