IFRIC Update

From the IFRS Interpretations Committee

March 2011

Welcome to the IFRIC Update

IFRIC Update is published as a convenience for 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 Interpretations 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 **10 and 11 March**, when it discussed:

- Current agenda:
  - Accounting for stripping costs in the production phase of a surface mine
  - Contingent pricing of property, plant and equipment and intangible assets
  - Put options written over non-controlling interests
- IFRS Interpretations Committee agenda decisions
- Post-implementation review
- IFRS Interpretations Committee work in progress
- Vacancies for IFRS Interpretations Committee members

Contact us

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: **ifric@ifrs.org**
Website: **www.ifrs.org**

Future IFRS Interpretations Committee meetings

The next meetings are:
5 and 6 May 2011
7 and 8 July 2011
8 and 9 September 2011
3 and 4 November 2011

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Current agenda:

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

IAS 16 *Property, Plant and Equipment*: accounting for stripping costs in the production phase of a surface mine

The Interpretations Committee took this issue onto its agenda in November 2009, and in August 2010 published for public comment a Draft Interpretation *Stripping Costs in the Production Phase of a Surface Mine*. The 90-day comment period ended on 30 November 2010. At the January 2011 meeting, the Committee discussed the comments received on the Draft Interpretation, and agreed to continue deliberating comments received on the Draft Interpretation.

At the March 2011 meeting, the staff presented a paper that discussed a revised principle for capitalising production stripping costs, including guidance on the apportionment of the costs incurred for obtaining a current and a future benefit, and a refined approach for depreciation/amortisation of the capitalised costs. At the meeting, the Committee tentatively agreed:

- with the principle for capitalisation described in the paper, provided that it was linked to specific identification of the 'component' of ore to which the costs relate, and provided that the costs could be measured with reliability.
- that a cost allocation approach should be adopted to differentiate between those costs that are

allocated to the cost of the asset created by the stripping activities versus those that form part of the cost of inventories, but the Committee did not make a decision between a relative benefit or a residual cost approach, as described in the paper.

- with the revised principle for depreciation/amortisation described in the paper.

The Committee asked the staff to bring back a revised draft Interpretation to the May 2011 meeting.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: contingent pricing of PPE and intangible assets

The Interpretations Committee took this issue onto its agenda in January 2011.

At the March 2011 meeting, the staff presented the main characteristics of contingent prices identified through outreach activities with a view to outlining the scope of the project. The Committee discussed indicators that are common to contingent prices and that have an effect on the cost of the original asset purchased. The Committee expressed concern over developing an interpretation based on too narrow a scope. The focus should be defining what the cost of the item purchased is.

The Committee noted that, where the obligation for the contingent price arises from a contractual agreement, the requirements in IAS 32/IAS 39/IFRS 9 *Financial Instruments* would apply. The contract would establish an obligation for the contingent price and IAS 32/IAS 39/IFRS 9 would lead to recognising a financial liability on the date of purchase of the asset for the fair value of the contingent payment. The definition of cost in IAS 16 similarly requires that the cost of the asset on the date of purchase should include the fair value of the consideration given (if a reliable estimate can be made), such as an obligation to pay a contingent price.

The Committee noted that the initial accounting for contingent prices arising from the purchase of a single asset is consistent with the initial accounting for contingent consideration arising from a business combination under IFRS 3 (2008).

The Committee also noted that the core issue is the accounting for the remeasurement of the liability and whether that remeasurement should be recognised in profit or loss, or included as an adjustment to the cost of the asset. The Committee noted that an initial analysis of IAS 39/IFRS 9 would suggest that the remeasurement should be recognised in profit or loss. However, the Committee expressed concern about whether this was a reasonable depiction of the transaction, noting that IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* had addressed a similar issue in the context of decommissioning, restoration and similar liabilities and had required an adjustment to the cost of the asset.

Accordingly, the Committee directed the staff to present further analysis on how to account for subsequent changes to the liability at the meeting in May 2011 and to consider whether there are circumstances in which the remeasurement of the liability for the contingent price should be included in the cost of the asset.

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

Over recent meetings, the Interpretations Committee has discussed aspects of the accounting for put options written over non-controlling interests (NCI puts) in the consolidated financial statements of the controlling shareholder. Constituents have expressed concern about the diversity in accounting for the subsequent measurement of the financial liability recognised for NCI puts.

In January 2011 the Committee discussed possible paths forward including consideration of a scope exclusion from IAS 32. The Committee asked the staff to consider whether excluding NCI puts from the scope of IAS 32 was a viable short-term solution.

At the March 2011 Committee meeting, the Committee continued to discuss a possible scope exclusion. The scope exclusion would change the measurement basis of NCI puts to that used for other derivative contracts. Specifically IAS 32, including the requirements in paragraph 23 to recognise a financial liability at the present value of the option exercise price, would not apply to NCI puts. Instead the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial*

Instruments for derivative contracts would apply.

The scope exclusion would apply only to the consolidated financial statements of the controlling shareholder. In addition, the scope exclusion would apply only to NCI puts with the following features:

- The NCI put is not embedded in another contract.
- The NCI put contains an obligation for an entity in the consolidated group to settle the contract by delivering cash or another financial asset in exchange for the interest in the subsidiary.

The Committee agreed that a scope exclusion from IAS 32 for NCI puts is a viable short-term solution. The Committee asked the staff to consider whether consequential amendments would be necessary to IAS 27 and IAS 39/IFRS 9 if NCI puts were to be excluded from the scope of IAS 32. The Committee recommended that the Board should consider making an amendment to the scope of IAS 32. The staff will present the Committee's recommendation to the Board at a future IASB 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 2 *Share-based Payment*—share-based payment awards settled net of tax withholding

The Interpretations 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.

The Committee identified a number of issues arising from the submission for which the application of the requirements of IFRS 2 caused concern, such as separately classifying components of a single award.

The Committee decided not to add the issue to its agenda because addressing these concerns would require an amendment to IFRS 2. Instead, the Committee decided to recommend to the Board that this issue should be included in a future agenda proposal for IFRS 2.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—application of the IAS 8 hierarchy

IAS 8 requires management to use judgement in developing and applying an accounting policy that results in information that is relevant and reliable, in the absence of an IFRS that specifically applies to a transaction. IAS 8 specifies that management shall refer to and consider the applicability of requirements in IFRSs dealing with similar and related issues. The Interpretations Committee received a question as to whether it could be appropriate to consider only certain aspects of an IFRS being analogised to, or whether all aspects of the IFRS being analogised to would be required to be applied.

The Committee observed that when management develops an accounting policy through analogy to an IFRS dealing with similar and related matters, it needs to use its judgement in applying all aspects of the IFRS that are applicable to the particular issue.

The Committee concluded that the process for developing accounting policies by analogy does not need to be clarified in paragraphs 10–12 of IAS 8 because the current guidance is sufficient. Consequently, the Committee decided that this issue should not be added to its agenda.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*– inclusion of own credit risk in the discount rate

The Interpretations Committee received a request for interpretation of the phrase 'the risks specific to the liability' and whether this means that an entity's own credit risk (performance risk) should be excluded from any adjustments made to the discount rate used to measure liabilities. The request assumed that future cash flow estimates have not been adjusted for the entity's own credit risk.

The Committee observed that paragraph 47 of IAS 37 states that 'risks specific to the liability' should be taken into account in measuring the liability. The Committee noted that IAS 37 does not explicitly state whether or not own credit risk should be included. The Committee understood that the predominant practice today is to exclude own credit risk, which is generally viewed in practice as a risk of the entity rather than a risk specific to the liability.

The Committee also noted that this request for guidance would be best addressed as part of the Board's project to replace IAS 37 with a new liabilities standard, and that the Board is already considering the request for additional guidance to be incorporated into this new standard. For this reason, the Committee decided not to add this issue to its agenda.

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Post-implementation review

Consultation on a staff draft of a work plan for a post-implementation review

The IASB is committed to performing a post-implementation review of all new IFRSs and major amendments. The Board first gave such a commitment when it issued IFRS 8 *Operating Segments*, for which the post-implementation review is expected to commence in the second half of 2011.

The Interpretations Committee received an overview of the staff's proposals for the draft general work plan for post-implementation reviews and was asked for its views (the staff are also seeking views from the IASB's advisory bodies and national standard-setters).

The feedback received from the Committee, and from the other consultations that the staff is undertaking, on the draft general work plan, will be presented to and discussed with the IASB at a future Board meeting.

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IFRS Interpretations Committee work in progress

IFRS 2 *Share-based Payment*—review of requests received by the Committee

The IASB asked the Interpretations Committee to review requests that it had received in relation to IFRS 2 with a view to helping the staff to develop an agenda proposal that the Board could consider as part of the setting of its agenda. The Committee reviewed the following eight requests that it has received over the last six years:

a. Employee share loan plans (May 2005)
b. Share plans with cash alternatives at the discretion of the entity (May 2006)
c. Grant date and vesting periods (May 2006)
d. Fair value measurement of post-vesting transfer restrictions (Nov 2006)
e. Employee benefit trusts in the separate financial statements of the sponsor (Nov 2006)
f. Incremental fair value to employees as a result of unexpected capital restructurings (Nov 2006)
g. Transactions in which the manner of settlement is contingent on future events (Jan 2010)
h. Vesting and non-vesting conditions—classification of a non-compete provision and the accounting for the interaction of multiple vesting conditions (Sept 2010).

For issues a.– f., the Committee had previously decided not to take these items onto its agenda because the Committee did not expect significant diversity on these items. The Committee is not aware of any further concerns on these matters or of diversity in practice. Consequently, the Committee does not recommend that the Board should consider these issues in any future agenda proposal for IFRS 2.

The Committee thinks that issues g. and h. should be considered in a future agenda proposal for IFRS 2 because of diversity in practice. The Committee also decided to recommend that the Board should include in a future agenda proposal the issue of the classification of share-based payment awards settled net of tax withholdings (discussed at the March 2011 meeting).

IFRIC 15 *Agreements for the Construction of Real Estate*—meaning of continuous transfer of control in real estate transactions

The Interpretations Committee received a request asking for clarification on the meaning of 'continuous transfer' referred to in IFRIC 15. The submission described the sale of residential apartments off plan and that, in some jurisdictions, relevant public authorities may be involved in addition to the direct parties to the sale and purchase transaction (ie the buyer and the developer). The role of such authorities is usually to protect the buyer if the developer defaults.

Whilst care should be taken not to offer too generalised an answer for such transactions, because of the effect of different local laws surrounding such real estate activities, the Committee was informed that diversity of views exists for similar types of fact patterns as to whether there is continuous transfer of control while construction is in progress. The Committee expressed concern about evidence received of formal local interpretations of IFRSs on this matter within some of the jurisdictions concerned.

Several Committee members observed that IFRIC 15 provides a principle for determining when continuous transfer is achieved and they thought that any further guidance that the Committee might give would be in the form of implementation guidance. They also noted that the Board project on revenue recognition is currently developing guidance on the meaning of transfer and continuous transfer, with a view to finalising the new IFRS by 30 June 2011. The Committee recommended that the Board should consider the fact pattern of the submission received in its revenue recognition project.

Before concluding on this issue, the Committee asked for further input on this issue from interested parties. At the next meeting in May, the staff will update the Committee as a result of this further work and of developments on the revenue recognition project.

Committee outstanding issues update

The Committee received a report of seven outstanding issues.

With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

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Vacancies for IFRS Interpretations Committee members

The Trustees of the IFRS Foundation invite applications from suitable candidates to fill up to four vacancies on the IFRS Interpretations Committee.

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