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This *IFRIC Review* summarises the meeting of the IFRS Interpretations Committee on 8-9 July 2010.

Key decisions

- The Committee agreed to publish a draft Interpretation for public comment to address the accounting for stripping costs in the production phase of mining activities. The Committee plans to issue the draft Interpretation before the end of August.

- The Committee discussed the definition of a "performance condition" in IFRS 2 and agreed to propose a definition that makes reference to the operations or activities of the entity. The staff committed to do more research on the illustrative examples and to present the revised examples and analysis at the next meeting.

- The Committee discussed the preparation and presentation of an opening statement of financial position at the date when an entity's functional currency ceases to be a currency that suffers from chronic hyperinflation. The Committee tentatively agreed that the existing IFRS 3 approach to fair value accounting, subject to an exception for intangible assets and goodwill, would provide the most appropriate approach for start-up accounting in both the separate financial statements of the entity and the consolidated financial statements of a parent with an interest in such an entity.

- The Committee discussed its previous tentative agenda decision on the recognition of deferred tax assets for unrealised losses on available-for-sale debt securities. The Committee decided not to finalise the tentative decision at this meeting because most of the comment letters received by the Committee disagreed with the tentative decision and there was concern that the Committee may be inadvertently changing what has been an acceptable practice. The Chairman noted that more work is needed in considering the alternatives and this issue will be discussed at a later date.

Agenda decisions

Issues not added to the Committee agenda:

IAS 1 – Going concern disclosures – specifying consequence of going concern
IAS 39 – Impairment of financial assets reclassified from AFS to loans and receivables

Tentative agenda decisions

Issues tentatively not added to the Committee agenda:

IFRS 1 – Fixed date in derecognition exception
IAS 21 – Repayment of investment/cumulative translation adjustment (CTA)
IAS 28 – Purchases in stages – fair value as deemed cost
IAS 40 – Transfers from Investment Property

Issues proposed for Annual Improvements:

IFRS 1 – Repeat application
IFRS 3 – Re-grouping and consistency of contingent consideration guidance

Summary of Committee discussions

IAS 16 – Accounting for production phase stripping costs in the mining industry – scope

In June 2009 a request was received for guidance on the accounting treatment of stripping costs during the production stage of a mine. The Committee agreed to add the issue onto the agenda at its November 2009 meeting but to limit the scope to accounting for the costs of removal of waste material in a surface mining activity during the production phase. At its March 2010 meeting, the Committee agreed that the activity of removing waste (i.e. overburden) creates a benefit in the form of improved access to the mineral ore body and therefore meets the definition of an asset.

At the July 2010 meeting, the Committee considered a draft Interpretation presented by staff and in particular the description of a stripping campaign, the scope of the Interpretation and possible disclosure requirements. A comprehensive description of a stripping campaign was agreed on the basis that the scope of the proposed Interpretation is limited to waste removal costs that are incurred in surface mining activities. The Committee decided not to include any specific disclosure requirements in the proposed draft Interpretation as these are likely to overlap with existing disclosure requirements in other relevant Standards. The proposed draft Interpretation would be applied prospectively from the effective date.

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IFRS 2 – Vesting and non-vesting conditions

The Committee received requests to clarify the distinction between a service condition, performance condition and non-vesting condition. The issue arises because constituents are interpreting differently the principle within IFRS 2 that vesting conditions should be those "conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, others assets or equity instruments of the entity, under a share-based payment arrangement." At its May 2010 meeting, the Committee considered a comprehensive analysis of the proposed classification of vesting and non-vesting conditions and requested further work be performed on clarifying the definition of a performance condition.

At the July 2010 meeting, the Committee considered the detailed analysis of the following proposed attributes of a performance condition:

- the incentive exists only if the employee is able to influence whether the target will be met, and

- the performance target is in the interest of the entity.

The Committee decided to eliminate these attributes from any draft Interpretation and focus on a performance condition being defined by reference to the activities or operations of the entity with an implicit or explicit service requirement. The Committee requested the staff to perform further research on the attribution period specifically considering the treatment in accordance with U.S. GAAP. Any further analysis and illustrative examples would exclude Save-as-you-earn ('SAYE') schemes, as the Committee agreed that the saving requirement in these schemes should be treated similar to the payment of an option exercise price, i.e. as a non-vesting condition.

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IAS 27 – Put options written over non-controlling interests

In May 2010, the Committee decided to add a project to its agenda to address the accounting for changes in the carrying amount of a financial liability for a put option written to a non-controlling interest ('NCI') shareholder in the consolidated financial statements of the parent. There is a potential conflict between the guidance included in IAS 39/IAS 32 and IAS 27.

At the July 2010 meeting, the Committee agreed to exclude put options issued in a business combination from the initial analysis, although the final Interpretation will also provide guidance on these. The Committee tentatively agreed that on initial recognition, the credit entry relating to the put option should be recognised as a financial liability, with any subsequent remeasurements being recognised in profit or loss. The Committee tentatively agreed that the debit entry on initial recognition should be recognised against the NCI when a parent entity, in substance, acquires present access to economic benefits associated with ownership. However, the Committee could not reach consensus on the debit entry when the parent does not, in substance, acquire present access to economic benefits. In the light of the divergent views expressed by Committee members, the Committee requested the staff to perform more research on the matter and present a further analysis at the September meeting.

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IAS 1 – Going concern disclosures

In May 2010, the Committee published a tentative agenda decision not to add to its agenda a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern. The request was to enhance the disclosure requirements in IAS 1 to provide a clearer link between disclosures about material uncertainties resulting from management's assessment in the financial statements and the effects that these material uncertainties may have on the entity's ability to continue as a going concern. The Committee received three comment letters, of which one disagreed with the tentative decision.

The Committee confirmed the tentative agenda decision without amendment at the July 2010 meeting.

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IAS 12 – Recognising deferred tax assets for unrealized losses on AFS debt securities

In May 2010, the Committee published a tentative agenda decision not to add to its agenda 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 (AFS) debt securities. The Committee noted that, in the context of the fact pattern in the request, the entity's actions to hold the AFS debt securities to maturity do not meet the definition in IAS 12.30 of a tax planning opportunity. In addition, the approach in IAS 12.24-31 requires an entity to assess the probability of realising deferred tax assets on a combined basis of all sources for deferred tax assets that is consistent with the rules established by the taxation authorities.

The Committee decided not to finalise the tentative decision at this meeting because most of the comment letters received by the Committee disagreed with the tentative decision and there was concern that the Committee may be changing what has been an acceptable practice. The Chairman noted that more work is needed and this issue will be finalised at a later date.

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IAS 39 – Impairment of financial assets reclassified from AFS to loans and receivables

In May 2010, the Committee published a tentative agenda decision not to add to its agenda a request received for additional guidance on how an entity should account for the impairment of financial assets with a fixed maturity after they have been reclassified from the AFS category to loans and receivables. The Committee notes that IAS 39 provides sufficient guidance on financial assets that are reclassified from AFS to loans and receivables and that it does not expect diversity in practice.

The Committee confirmed the tentative agenda decision subject to including reference to both paragraphs 50F and 54 of IAS 39 in the agenda decision.

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IFRS 1 – Fixed date for fair value measurement and derecognition

At the May 2010 meeting, the Committee decided to delay the finalisation of a request to replace the fixed date of 1 January 2004 in IFRS 1.B2 and .D20 with a more relevant date, pending the transition requirements specified in the exposure draft on Derecognition to be issued by the IASB. The matter was referred back to the Committee for reconsideration following the IASB's decision not to issue an exposure draft on Derecognition.

At the July 2010 meeting, the Committee decided to replace the fixed date with the phrase "date of transition to IFRSs". In order to provide an expedient solution to those jurisdictions planning to adopt IFRSs in the near future, the Committee made a recommendation to the IASB to publish the proposed amendment as a separate amendment to IFRS 1 and not as part of the Annual Improvements Project.

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IFRS 1 – Repeat application

The Committee received a request in March 2010 to clarify whether an entity can apply IFRS 1 more than once.

At the July 2010 meeting, the Committee agreed to amend IFRS 1 as part of the Annual Improvements Process. The proposed amendment would clarify that IFRS 1 can be applied even if the entity has adopted IFRSs in previous periods, as long as its most recent financial statements have not been prepared in accordance with IFRSs.

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IAS 21 – Repayment of investment/CTA

At the March 2010 meeting, the Committee began preliminary discussions related to when the cumulative translation adjustment (CTA) relating to an investor's net investment in a subsidiary should be recognised in profit or loss, i.e. recycled.

At the July 2010 meeting, the Committee discussed the proportionate reduction and absolute reduction approaches. Under the proportionate reduction approach, the CTA would be recycled only when there is a reduction in the entity's proportionate ownership interest, whereas under the absolute reduction approach, amounts would be recycled any time there is a reduction in the absolute ownership interest. The Committee was split between the two approaches and, as a consensus is unlikely to be reached in the near future, it was agreed to remove the issue from its agenda.

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IAS 29 – Reporting in accordance with IFRSs after a period of chronic hyperinflation

The Committee received a request to clarify how an entity should resume presenting financial statements in accordance with IFRSs after a period of chronic hyperinflation during which it was unable to comply with IAS 29 (e.g., Zimbabwe). In May 2010, the Committee reached a tentative conclusion that IAS 29 should be amended to provide guidance on preparing and presenting an opening statement of financial position at the date when the entity's functional currency ceases to be a currency that suffers from chronic hyperinflation.

The Committee tentatively agreed that the IFRS 3 approach should be followed when initially recognising assets and liabilities in the separate financial statements on a start-up basis and that no comparative amounts should be provided. The Committee agreed to create an exception to limit the recognition of goodwill and intangible assets to those items that would have been recognised in accordance with IAS 38.

The Committee discussed the preparation of consolidated financial statements by a parent that has an interest in an entity with a functional currency that has just ceased to be that of chronic hyperinflation. The Committee tentatively agreed that the parent's accounting would treat this as a 'disposal' of its existing interest in the entity at its carrying amount when it no longer prepares IFRS-compliant financial statements and an 'acquisition' of a new entity at the date IFRS-compliant financial statements could once again be prepared. This approach is similar to acquisition accounting but the parent would determine the fair value of the identifiable assets and liabilities of the entity rather than the fair value of the business and any resulting gain or loss would be recognised in profit or loss. In order to provide an expedient solution, the Committee recommended to the IASB to carry on with the proposed IAS 29 amendments rather than including the issue as part of the Annual Improvements Process.

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IAS 40 – Change from fair value model to cost model

The Annual Improvements exposure draft published in 2009 (ED/2009/11) included a number of amendments related to IAS 40. As the respondents to the exposure draft highlighted a confusing array of interactions between IAS 40 and other IFRSs, the Committee recommended in March 2010 not to finalise the proposed amendments. The IASB requested the Committee to revisit these matters as developments in IFRSs since the publication of the exposure draft had clarified many of the conflicts.

At the July 2010 meeting, the Committee considered the recognition and measurement of investment properties and the presentation of investment properties held for sale. The Committee agreed to retain the requirement to transfer investment properties held for sale in the ordinary course of business to inventories when this reflects the intent of the entity. The Committee decided that recognition of investment properties in accordance with different IFRSs should continue. The Committee also decided that investment properties held for sale that do not satisfy the criteria of IFRS 5 should not be displayed as a separate category of assets.

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IFRS 3 – Regrouping and consistency of contingent consideration guidance

At the February 2010 IASB meeting, the IASB requested the Committee to make recommendations on how to present the guidance on contingent consideration in one standard.

The Committee reviewed an analysis of inconsistencies and potential conflicts between IFRS 3's requirements on accounting for contingent consideration and other applicable IFRSs. The Committee tentatively decided to propose to remove, as part of the Annual Improvements Process, any references to other IFRSs from IFRS 3.58 and clarify the wording of paragraph 40. The proposed changes will be discussed further in September.

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IAS 28 – Step-acquisition: fair value as deemed cost

The Committee received a request on how to account for an investment in an associate acquired in stages when the investment was initially accounted for as an AFS investment. The Committee agreed that at the time the investment changes its nature from an AFS investment to an associate, the AFS investment should be treated as 'disposed', with gains or losses reclassified from other comprehensive income to profit or loss (i.e. recycled). The fair value of the total holding would establish the initial carrying amount for equity accounting purposes. However, the Committee noted that such an amendment would represent a significant change in principle to IAS 28 and that such a project was beyond the scope of the Improvements Process. The Committee agreed to refer this matter to the IASB together with its recommendations.

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New items carried over to the next meeting

The Committee did not address the following issues:

- IAS 19 Employee Benefits: Accounting for statutory employee profit sharing arrangements.

- IAS 36 Impairment of Assets: Accounting for goodwill impairment testing when non-controlling interest are recognised.

- All IFRSs: Encouraged versus required disclosures.

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