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IFRS Global office
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# IFRIC Review.

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Key contacts

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This publication summarises the meeting of the IFRS Interpretations Committee on 2-3 September 2010.

## Key decisions

- The Committee continued its deliberations on put options written over non-controlling interests. The Committee noted that IAS 32 requires the financial liability recognised for a NCI put to be subsequently measured in accordance with IAS 39 with changes in fair value recognised in profit or loss. However, the Committee acknowledged accounting concerns arising as a consequence of this treatment and decided not to add the issue to its agenda but instead refer it to the IASB for inclusion in the project on *Financial Instruments with Characteristics of Equity*. The Committee expects entities to apply the guidance in IAS 1 in determining whether financial statement disclosure of the accounting for NCI puts is necessary.

- The Committee discussed whether key management personnel (KMP), as defined in IAS 24, can include an entity as opposed to only individuals. The Committee recommends that the Board amend IAS 24 through the annual improvements process to clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity and any fees paid for those services should be disclosed as a related party transaction. The Committee further recommends that employees of the entity providing the key management services are not KMP of the reporting entity unless they qualify for other reasons.

- The Committee considered the classification of a share-based payment transaction when an entity withholds a portion of the shares awarded in an equity-settled share-based payment to settle the employees' tax obligation resulting from the share-based payment award. The Committee noted 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 and also noted that cash is transferred to the tax authority in the fact pattern discussed. The Committee noted that IFRS 2 provides sufficient guidance and tentatively decided not to add the issue to its agenda but will refer the issue to Board for inclusion in the post-implementation review of IFRS 2.

### Agenda decisions

*Issues not added to the Committee agenda:*

IAS 21 – Repayments of investments and foreign currency translation reserve

IFRS 1 – Repeat application

### Tentative agenda decisions

*Issues tentatively not added to the Committee agenda:*

IFRS 2 – Share-based payment awards settled net of tax withholdings

IAS 32 – Put options written over non-controlling interests

IAS 1 – Encouraged versus required disclosures

IAS 1 – Current/non-current classification of a callable term loan

IAS 19 – Accounting for a statutory employee profit-sharing arrangement

IAS 36 – Accounting for impairment testing of goodwill when non-controlling interests are recognised

IAS 36 – Calculation of value in use

*Issues proposed for Annual Improvements:*

IAS 1 – Comparatives in financial statements

IAS 24 – Key management personnel

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## Summary of Committee discussions

### IFRS 1 – Repeat application

The Committee continued its discussions to clarify an entity that have previously adopted IFRSs can apply IFRS 1 for a second time after a period of presenting financial statements that have not been prepared in accordance with IFRSs. At the July 2010 meeting, the Committee observed that IFRS 1 requires an entity to apply the standard in its first IFRS financial statements and further noted that paragraph 3 of IFRS 1 provides examples of when an entity's financial statements are considered to be its first IFRS financial statements. However, the Committee observed that the wording of IFRS 1 in this regard could be made clearer and tentatively recommend that IFRS 1 be amended as part of the annual improvements process.

At the September 2010 meeting, the Committee considered the proposed wording, which clarify that an entity is required to apply IFRS 1 for a second time when the entity's most recent previous financial statements were not presented in accordance with IFRSs. The Committee confirmed its recommendation that the IASB clarify the guidance relating to the repeat application of IFRS 1 as part of *Annual Improvements*.

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### IFRS 2 – Vesting and non-vesting conditions

The Committee continued its discussions to clarify the distinction between a service condition, performance condition and non-vesting condition.

At the September 2010 meeting, the Committee considered whether a non-compete provision should be treated as a service condition. The Committee tentatively decided that a share-based payment transaction subject to a non-compete provision should be only considered a transaction with parties other than employees and that the non-compete provision should be treated as a contingent feature. The Committee also considered the treatment of a performance target that exceeds the required service period. In line with current practice, the Committee tentatively decided that a performance target that is not fully combined with a service period (implicit or explicit) would not be a performance condition and should be considered a non-vesting condition. To clarify the matter, the Committee proposed a revised definition for performance conditions. The Committee will seek direction from the IASB on how best to proceed with the project at a future meeting.

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### IFRS 2 – Accounting for share-based payment awards upon an entity's termination of an employee's employment

The Committee received a request to consider the accounting treatment for share-based payment awards upon an entity's termination of an employee. The Committee tentatively decided that the entity's termination of an employee should be treated as a forfeiture event because the employee is unable to satisfy the service condition. The Committee concluded that there is no need to determine the reasons why the entity terminated the employee as any attempts to ascertain the ultimate underlying purpose of the termination might prove to be extremely subjective and difficult. The Committee noted that this issue may be addressed with the other IFRS 2 issues as part of its current project on vesting and non-vesting conditions.

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### IFRS 2 – Share-based payment awards settled net of tax withholdings

The Committee considered a matter related to IFRS 2 which arises when an employer withholds a specified portion of the shares that would otherwise be issued to the employee in order to settle the employee's tax obligation. The Committee considered whether the amounts withheld and paid out in cash to the tax authority on the employee's behalf should be considered as part of the equity-settled award or separately as a cash-settled award and therefore recognised as a liability.

The Committee noted 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 and also noted that cash is transferred to the tax authority in the fact pattern discussed. The Committee noted that IFRS 2 provides sufficient guidance and tentatively decided not to add the issue to its agenda but will refer the issue to Board for inclusion in the post-implementation review of IFRS 2 to determine if it would be appropriate to introduce an exemption in IFRS 2 to permit equity-settled classification of the portion of the share-based payment withheld.

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### IAS 1 – Encouraged versus required disclosures

The Committee was made aware that few entities provide information when a financial statement disclosure is only encouraged rather than required by an IFRS. The Committee considered an analysis of all encouraged disclosure requirements in IFRSs, with the view of either making them mandatory disclosures, incorporating them as illustrative guidance within IAS 1 or eliminating them completely from the relevant IFRS. The Committee agreed not to continue its deliberations on the matter, as the IASB will be developing new disclosure objectives and requirements for the projects on its agenda and any amendments recommended by the Committee may be a duplication of effort.

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### IAS 1 – Comparatives in financial statements

At the May 2010 meeting, the Committee decided to amend IAS 1 through the annual improvements process to clarify the minimum requirements for comparative information to be included in a complete set of financial statements. At the September 2010 meeting, the Committee recommended that the IASB amend IAS 1 to clarify that only one comparative period is required for a complete set of financial statements. Presenting additional financial statements is permitted provided they are not misleading and the additional information complies with IFRSs. Additionally, when there is a retrospective change in accounting policy, retrospective restatement or reclassification, an opening statement of financial position for that one comparative period is the only additional statement that is required under IFRSs.

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### IAS 1 – Current/non-current classification of callable term loan

The Committee received a request for guidance on the classification of term loans as current or non-current in accordance with IAS 1 when the loan agreement includes a feature that allows the lender to call a loan at any time for any reason. The request further states that while this term may be included within the loan agreement, exercise of this type of call feature has been very limited outside of a significant adverse change in the financial condition of the borrower.

The Committee considered the guidance provided in paragraph 69 (d) of IAS 1 and noted that a liability must be classified as a current liability when the borrower does not have the unconditional right to defer settlement for at least twelve months after the reporting period. The Committee considers the guidance in IAS 1 on the classification of liabilities to be sufficient and does not expect diversity in practice. The Committee therefore tentatively decided not to add this issue to its agenda.

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

The Committee considered additional comment letters received on the tentative agenda decision published in July 2010. The letters expressed concern that the Committee tentatively decided not to address this matter through the annual improvements process. The Committee decided not to finalise the tentative agenda decision, but asked the staff to develop an updated analysis of the issue that should include consideration of clarifying IAS 12.

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### IAS 19 – Accounting for a statutory employee profit sharing arrangement

The Committee received a request to consider the accounting for statutory employee profit-sharing arrangements where the employee benefit is computed based on taxable profit, i.e., paying employees a fixed percentage share of the taxable profit of the entity. The Committee specifically considered accounting for the deferred component of the arrangement that results from a present obligation for future profit sharing. The recognition of a liability for future profit-sharing is supported by an analogy to IAS 12 and taxable temporary differences, whereas not recognising a liability is supported by analogy to IAS 19 because a liability relating to future services is not recognised.

The Committee considered the guidance provided in IAS 19 to be sufficiently clear in that the recognition of a liability for future service and benefits is not permitted. The Committee does not expect significant diversity in practice and therefore tentatively decided not to add the item to its agenda.

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### IAS 21 – Repayments of investments and foreign currency translation reserve

The Committee considered the comment letters received on the tentative agenda decision published in July 2010. The Committee agreed to finalise the tentative agenda decision not to add this item to its agenda and to refer the matter to the IASB for inclusion in the future overall review of IAS 21.

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### IAS 24 – Key management personnel

The Committee considered a request on whether key management personnel (KMP), as defined in IAS 24, can include an entity as opposed to only individuals. The request presented the case of mutual funds that do not have employees and therefore hire 'key management' services from a separate management entity. As remuneration for services performed, the management entity is paid a fee by the reporting entity. The submission also questioned whether the employees of the management entity qualify as KMP of the reporting entity.

The Committee recommends that the Board amend IAS 24 through the annual improvements process to clarify that an entity providing key management services to the reporting entity, is a related party of the reporting entity and any fees paid for those services should be disclosed as a related party transaction. The Committee further recommends that employees of the management entity providing the key management services are not KMP of the reporting entity unless they qualify for other reasons.

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### IAS 32 – Put options written over non-controlling interests

The Committee continued its deliberations on put options written over non-controlling interests. The Committee noted that IAS 32 requires the financial liability recognised for a NCI put to be subsequently measured in accordance with IAS 39 with any changes in fair value recognised in profit or loss. However, the Committee acknowledged accounting concerns arising as a consequence of this treatment and decided not to add the issue to its agenda but instead refer it to the IASB for inclusion in the project on *Financial Instruments with Characteristics of Equity*. The Committee expects entities to apply the guidance in IAS 1 in determining whether financial statement disclosure of the accounting for NCI puts is necessary.

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### IAS 36 – Accounting for impairment testing of goodwill when non-controlling interests are recognised

The Committee considered a request received on how to account for impairment testing of goodwill when NCI is recognised. The Committee considered amending IAS 36 to require the allocation of an impairment loss relating to goodwill on the same basis as that on which profit or loss is allocated. Given the number of practical issues to be considered relating to this matter, the Committee tentatively decided not to add this item to its agenda as an annual improvement but rather recommend it to the IASB for inclusion in the post-implementation review of IFRS 3.

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## IAS 36 – Calculation of value in use

The Committee considered a request on whether dividend discount models, as opposed to the discounted cash flow model, can be used when calculating "value in use" of a cash generating unit (CGU). The Committee believes that a dividend discount model may be appropriate for impairment testing of a single asset (e.g. an investment in the separate financial statements of an entity). However, when testing the CGU for impairment in the consolidated financial statements, the Committee believes a dividend discount model would only be appropriate in very limited circumstances. The Committee tentatively decided not to add the item to its agenda, because the guidance in IAS 36 provides sufficient guidance on calculating the value in use of a CGU.

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