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IFRIC Review.

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This publication summarises the meeting of the IFRS Interpretations Committee on 5-6 May 2011

Key decisions

IAS 16 – Accounting for stripping costs in the production phase of a surface mine

The Committee continued its discussion of the accounting for stripping costs in the production phase of a mine. The staff presented a revised draft of the Interpretation that did not include the 'stripping campaign' concept but rather described the recognition of a long-term asset as a 'stripping cost asset'. Additionally, the staff replaced the term 'section' from the recognition principle with the term 'component'. The Committee discussed the revised recognition and measurement principles as well as issues relating to impairment of the stripping cost asset, transition considerations and whether to include the illustrative example in the final Interpretation. The Committee tentatively agreed with the revised recognition principle. Some Committee members expressed concern with the updated descriptions in the draft Interpretation and therefore these items may be discussed again at a future meeting. The Committee discussed two approaches for cost allocation – the residual cost approach and the relative benefit approach. The Committee tentatively agreed not to require any specific cost allocation approach for the measurement of the stripping cost asset (although an allocation based on future sales may be prohibited). The Committee tentatively agreed on a measurement principle based on production metrics and tentatively decided that IAS 36 *Impairment of Assets* should be used for testing the stripping cost asset for impairment. The Committee reaffirmed their previous decision that the provisions in the Interpretation would be effective for production stripping costs incurred on or after the beginning of the earliest period presented. The Committee tentatively agreed that stripping cost assets no longer eligible for capitalisation would be written off through opening retained earnings upon initial application of the Interpretation. The Committee tentatively agreed not to include examples in the final Interpretation. The Committee requested the staff to bring a final draft of the Interpretation to the next meeting and will decide at that time whether re-exposure of the Interpretation is necessary.

IAS 16 and IAS 38 – Contingent pricing of PPE and intangible assets

The Committee continued its discussion of contingent pricing of property, plant and equipment and intangible assets. The Committee discussed a possible analogy to IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities and* IFRS 3 *Business Combinations* and the Committee was provided an update on decisions from the revenue recognition and lease accounting projects. The Committee ultimately decided not to proceed with this issue until the IASB finalises its discussion on variable payments relating to the leases project.

IFRIC 15 – Meaning of continuous transfer of control in real estate transactions

The Committee received a request asking for clarification on the meaning of 'continuous transfer' referred to in IFRIC 15 *Agreements for the Construction of Real Estate*. At the March 2011 meeting, the Committee asked the staff to gather further input on this issue. At this meeting, the staff provided the Committee with an update of their outreach activities and the revenue recognition project team provided the Committee with an update on the tentative decisions reached relating to the transfer of control. The Committee decided to defer further discussion of this issue until the criteria for the determination of the transfer of goods and services are finalised as part of the revenue recognition project.

Issues considered for Annual Improvements

Issues recommended for inclusion in the Annual Improvements process:

IFRS 8 – Reconciliation of segment assets in IFRS 8
IAS 7 – Classification of interest paid that is capitalised as part of the cost of an asset
IAS 16 – Revaluation model and proportionate restatement

Issues with recommendations not to be added to Annual Improvements:

IFRS 2 – Modification of a share-based payment from cash-settled to equity-settled
IAS 27 – Contributions to a jointly controlled entity or an associate
IAS 28 – Equity method

Tentative agenda decisions

Issues tentatively not added to the Committee agenda:

IAS 16 – cost of testing
IAS 19 – defined contribution plans with vesting conditions

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Summary of Committee discussions

IAS 16 – Cost of testing

The Committee received a request to clarify the accounting for sales proceeds from testing an asset before it is ready for commercial production. The request specifically related to a petrochemical complex with several plants, some of which are ready for use by management and producing chemicals that are sold on the market, while others are still in the commissioning phase and not yet ready for production. The question arising from this request is whether revenue from products produced from completed plants and sold on the market could be used to offset the costs of testing the other plants that are still in the commissioning phase. The Committee noted that paragraph 17(e) of IAS 16 *Property, Plant and Equipment* applies to an item of property, plant and equipment would likely to apply separately to each individual plant. The Committee also indicated that the 'commercial production date' appears to be a different concept from the 'ready for intended use' in paragraph 16(b) of IAS 16. The Committee acknowledged that the guidance in IAS 16 is sufficient to determine the date an asset is 'ready for intended use' and distinguish proceeds that offset costs of testing the asset from revenue from commercial production. The Committee does not expect diversity to arise in practice and therefore tentatively decided not to add this issue to its agenda.

IAS 19 – Defined contribution plans with vesting conditions

The Committee received a request seeking clarification on the impact that vesting conditions have on the accounting for defined contribution plans. The Committee discussed the definition of a defined contribution plan in paragraph 7 of IAS 19 *Employee Benefits* and referred to the guidance in IAS 19 that vesting conditions do not have an effect on the classification of a plan as a defined contribution plan if the employer is not required to make additional contributions to cover shortfalls because of these vesting conditions. The Committee acknowledged that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation resulting in the recognition of a liability (accrued expense) when they are due and the recognition of an asset (income) for refunds when entitled which occurs when an employee fails to meet the vesting condition. The Committee indicated that there is no significant diversity in practice and therefore tentatively decided not to add this issue to its agenda.

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IFRS 8 – Reconciliation of segment assets in IFRS 8

The Committee received a request to amend paragraph 28(c) of IFRS 8 *Operating Segments* to indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if total segment assets are regularly provided to the chief operating decision maker (CODM). This change would create consistency with paragraph 28(d) which already requires that a reconciliation of the total of reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported to the CODM. This request has been made to include this proposed amendment in the 2010-2012 annual improvements cycle. The Committee agreed with the proposed clarification and decided to recommend to the IASB that an amendment should be made to paragraph 28(c) of IFRS 8.

IAS 7 – Classification of interest paid that is capitalised as part of the cost of an asset

The Committee received a request to clarify the classification in the cash flow statement of interest paid that is capitalised into the cost of property, plant and equipment. The request indicated that paragraph 16 of IAS 7 *Statement of Cash Flows* was inconsistent with paragraphs 32 and 33 of IAS 7. The Committee noted that the classification of capitalised interest should be consistent with the classification of the underlying asset. The Committee agreed there is a conflict and decided to recommend that the IASB amend IAS 7, through the annual improvements process, to clarify that the classification of payments of interest that are capitalised should be consistent with the underlying asset to which those payments were capitalised.

IAS 16 – Revaluation model and proportionate restatement

The Committee received a request to address a concern relating to the computation of the accumulated depreciation at the date of the revaluation under paragraph 35(a) of IAS 16. The concern was over the word "proportionately" in paragraph 35(a) as a proportionate restatement of accumulated depreciation is not possible in cases where the residual value, the useful life or the depreciation method has been re-estimated before revaluation. The Committee noted that the 'proportionate' requirement does not allow for the effects of past revisions to residual value, useful life or depreciation method. Paragraph 80(a) of IAS 38 *Intangible Assets* contains the same requirements. The Committee decided to recommend that the IASB amend paragraph 35(a) of IAS 16 and paragraph 80(a) of IAS 38 through the Annual Improvements process to reflect the fact that restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount of the asset.

IFRS 2 – Modification of a share-based payment from cash-settled to equity-settled

The Committee received a request to clarify how to measure and account for a share-based payment where a cash-settled award is cancelled and is replaced by a new equity-settled award and the replacement award has a higher fair value than the original award. The request provided an example and identified two different views on how to measure the replacement award: (1) apply by analogy the modification guidance in IFRS 2 *Share-based Payment* or (2) consider that the original award has been settled and replaced by a new award. The Committee indicated that amendments to IFRS 2 would be beyond the scope of the Annual Improvements project and therefore decided to recommend that the IASB consider this issue as part of a future project to improve IFRS 2.

IAS 27 – Contributions to a jointly controlled entity or an associate

The Committee received three requests asking for clarification of the accounting when a parent loses control over a subsidiary and that subsidiary is contributed so as to become (part of) a jointly controlled entity or an associate. Specifically, would a parent recognise the full gain or loss resulting from the transaction (consistent with IAS 27 *Consolidated and Separate Financial Statements*) or only to the extent of the interests of the other equity holders in the jointly controlled entity or associate (consistent with IAS 31 *Interests in Joint Ventures*/SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*). The Committee agreed that there is an inconsistency between the guidance in IAS 27 and IAS 31 because paragraph 5 of SIC-13 restricts gains and losses arising from contributions of non monetary assets to a jointly controlled entity and paragraph 34 of IAS 27 requires full profit or loss recognition on the loss of control. In December 2009, the Board decided not to address this inconsistency within the joint venture project but to deal with it separately. The Committee was concerned that only addressing the narrow issue would not address the broader issues and may inadvertently create structuring opportunities. The Committee agreed that this issue should not be part of the Annual Improvements process but should be referred to the Board as part of a broader project on equity accounting.

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IAS 28 – Equity method

The Committee received a request to address an inconsistency between paragraphs 2 and 11 of IAS 28 *Investment in Associates* and IAS 1 *Presentation of Financial Statements* that arose from consequential amendments to IAS 28 when IAS 1 was revised in 2007. Paragraph 2 of IAS 28 indicates that all changes in the net assets of an investee should be recognised by the investor. However, paragraph 11 of IAS 28 only addresses the accounting of the investor's share of profit or loss, distributions and other comprehensive income but does not address the accounting for other changes in the investee's net asset when the investor applies the equity method. The Committee generally agreed that the issue needed to be addressed but several Committee members expressed concerns about addressing this issue through the Annual Improvements process because they felt the scope of the issue would require a reconsideration of equity method accounting. Therefore, the Committee recommended that this issue should be considered by the IASB as part of a broader project on improving IAS 28.

IAS 37 – Use of IFRIC 6 by analogy

The Committee received a request for clarification about whether IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* should be applied by analogy to other levies charged for participation in a market on a specified date to identify the event that gives rise to a liability for determining when a liability should be recognised. Two specific examples were the bank levy assessed in the United Kingdom where the bank is taxed at the end of the reporting period and measured based on the carrying amount of equity and liabilities and a railway tax in France that is triggered if an entity is authorised to participate in its market on the first day of the annual reporting period and is calculated as a percentage of revenues in the preceding annual period. The Committee acknowledged that there are various levies and IFRIC 6 could apply depending on facts and circumstances. The Committee requested the staff to review the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on the timing of recognition of a liability and to perform outreach activities.

Administrative Session

The staff discussed the outstanding issues and noted they are currently researching two agenda requests that have been received by the Committee: (1) IFRS 3:9 requesting clarification on the identification of the acquirer in a business combination involving a newly formed entity and (2) IAS 27:13 requesting clarification on whether the amendments to IAS 27 in 2008 can be applied to group reorganisations in which a newly incorporated entity inserted into a group, rather than added on top of a group, and has several direct subsidiaries rather than just one direct subsidiary.

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Key contacts

IFRS global office
Global Managing Director, IFRS Clients and Markets
Joel Osnoss
ifrsglobalofficeuk@deloitte.co.uk

Global Managing Director, IFRS Technical
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Communications
Randall Sogoloff
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas		
Canada	Robert Lefrancois	iasplus@deloitte.ca
LATCO	Fermin del Valle	iasplus-LATCO@deloitte.com
United States	Robert Uhl	iasplusamericas@deloitte.com
Asia-Pacific		
Australia	Anna Crawford	iasplus@deloitte.com.au
China	Stephen Taylor	iasplus@deloitte.com.hk
Japan	Shinya Iwasaki	iasplus-tokyo@tohmatsu.co.jp
Singapore	Shariq Barmaky	iasplus-sg@deloitte.com
Europe-Africa		
Belgium	Laurent Boxus	BEIFRSBelgium@deloitte.com
Denmark	Jan Peter Larsen	dk_iasplus@deloitte.dk
France	Laurence Rivat	iasplus@deloitte.fr
Germany	Andreas Barckow	iasplus@deloitte.de
Luxembourg	Eddy Termaten	luiasplus@deloitte.lu
Netherlands	Ralph ter Hoeven	iasplus@deloitte.nl
Russia	Michael Raikhman	iasplus@deloitte.ru
South Africa	Graeme Berry	iasplus@deloitte.co.za
Spain	Cleber Custodio	iasplus@deloitte.es
United Kingdom	Elizabeth Chrispin	iasplus@deloitte.co.uk

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