

IFRIC Review.

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For more information please see the following websites:

www.iasplus.com

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This publication summarises the meeting of the IFRS Interpretations Committee on 4-5 November 2010.

Key decisions

IAS 32 – Put options written over non-controlling interests

The Committee continued its discussions about the issue of put options written over non-controlling interests. The Committee receive a large numbers of negative comment letters in response to the publication of the tentative agenda decision reached at the September 2010 meeting recommending not to add this issue to its agenda but instead to refer it to the IASB. Constituents expressed concerns that this urgent issue would not be addressed by the IASB in the foreseeable future because of the IASB's recent decision to delay the *Financial Instruments with Characteristics of Equity* project. In addition, many constituents believed that the tentative decision did not reflect the conflict between IAS 27(R) and IAS 39. Therefore, the Committee agreed to consider this issue as a matter of urgency, which may involve the development of an Interpretation with amendments to other IFRSs (which would require IASB approval). The Committee will discuss this matter in more detail at its January 2011 meeting after receiving feedback from the IASB.

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

The Committee discussed its previous tentative conclusion relating to 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 arrangement to settle the employees' tax obligation resulting from the share-based payment award. The Committee tentatively decided at the September 2010 meeting that an award should be 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 the Committee discussed at that meeting. At the November 2010 meeting, the Committee expressed concerns about the negative comments raised by constituents that the agenda decision if finalised would significantly influence some current practice. The Committee requested the staff provide additional analysis of the issue and reconsider the appropriate classification of the entire arrangement. On the basis of this analysis, the Committee will decide at a future meeting how to proceed with this issue.

IAS 12 – Recognising deferred tax assets for unrealised losses on available-for-sale debt securities

The Committee previously developed a draft agenda rejection relating to the recognition of a deferred tax asset for unrealised losses on available-for-sale debt securities. At the November 2010 meeting, the Committee agreed to address this issue through the annual improvements process (AIP), clarifying when it is appropriate to recognise a deferred tax asset.

The AIP proposals will clarify that an action that results in the reversal of an existing deductible temporary difference without creating or increasing taxable profit in the future is not a tax planning opportunity and that an entity should only recognise a deferred tax asset to the extent it is probable that it will have sufficient taxable profit, exclusive of reversing temporary differences and carry-forwards. The Committee's proposals would also clarify that an entity assesses the probability of realising deferred tax assets by considering temporary differences on a combined basis for each type of taxable profit of the appropriate character (for example, ordinary income and capital gain) in a manner that is consistent with the rules established by the taxation authorities.

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Agenda decisions

Issues not added to the Committee agenda:

- IAS 1 – Current/non-current classification of a callable term loan
- IAS 12 – Recognising deferred tax assets for unrealised losses on AFS debt securities
- IAS 19 – Accounting for statutory employee profit-sharing arrangements
- IAS 36 – Calculation of value in use

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Tentative agenda decisions

Issues tentatively not added to the Committee agenda nor proposed for Annual Improvements:

- IFRS 3 – Settlement of pre-existing relationship
- IAS 37 – Inclusion of own credit risk in discount rate
- IAS 41 – Revenue on sale of agricultural produce

Issues proposed for Annual Improvements:

- IFRS 2 – Vesting and non-vesting conditions
- IAS 12 – Recognising deferred tax assets for unrealised losses on AFS debt securities
- IAS 36 – Disclosure of recoverable amounts

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Summary of Committee discussions

The Committee received a report from the French standard-setter (ANC) on possible ways to improve accounting for share-based payment arrangements as part of the IASB's larger project to replace IFRS 2.

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 decided to request views from the IASB on the best way forward with these issues. At the September 2010 IASB meeting, the Board acknowledged that not every issue needs to be addressed in a similar process and asked the Committee to prioritise the issues under consideration and determine the way forward. Accordingly, at the November 2010 meeting, the Committee agreed to address a number of the issues identified (correlation between an employee's responsibility and the performance target, share market index target, performance period longer than the required service period, termination of employment) through the AIP process and others through a separate agenda request to the IASB. The Committee also tentatively decided to propose separating the definitions of performance and service conditions from the definition of vesting conditions within IFRS 2 when addressing these issues as part of the AIP process. The Committee noted that a separate agenda request would have to be considered alongside the ANC's report for a complete reconsideration of IFRS 2.

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IFRS 3 – Settlement of pre-existing relationships

The Committee considered a request to clarify the guidance that applies to the settlement of a pre-existing relationship between the acquirer and the acquiree in a business combination. Some believe that there are divergent views in the application of the guidance in paragraph B52 of IFRS 3. The Committee decided not to take the issue on to its agenda because they believe IFRS 3 is clear and would not expect significant diversity in practice. The Committee agreed to issue a tentative agenda decision that identifies the appropriate guidance in IFRS 3 for the accounting treatment for the 'at-market' component of a pre-existing relationship that is not a reacquired right in a business combination.

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IAS 1 – Current/non-current classification of debt (Rollover agreements)

The Committee considered a request to clarify the meaning of ‘*unconditional right to defer settlement*’ in paragraph 69(d) of IAS 1 and ‘*refinance*’ and ‘*roll-over*’ in paragraph 73 of IAS 1 as well as whether the assessment of a right as unconditional requires consideration of all possible future circumstances or only those that exist at the reporting date. The Committee held divergent views on what the current and non-current classification in IAS 1 should portray (liquidity of the entity versus obligations from the individual contract with the same counterparty). Given the diversity of views, the Committee asked the staff to perform outreach about the practical issues in various jurisdictions to ascertain how prevalent the issue is as well as to compare the current IFRS guidance with the requirements under US GAAP. The Committee will discuss this issue again at its January 2011 meeting.

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

The Committee considered the comment letters received on the tentative agenda decision published in September 2010. The Committee agreed to finalise the agenda decision not to add this item to its agenda as IAS 1 already contains sufficient guidance.

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IAS 19 – Accounting for statutory employee profit sharing arrangements

The Committee considered the comment letters received on the tentative agenda decision published in September 2010. Subject to drafting changes resulting from the public consultation, the Committee agreed to finalise the agenda decision not to add this item to its agenda as IAS 19 already contains sufficient guidance.

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IAS 36 – Disclosure of recoverable amount

The Committee considered a request relating to an inconsistency in the disclosure requirements in IAS 36 when the discounted cash flow model is used in the calculation of a recoverable amount. The Committee agreed that that if fair value less cost to sell is determined using a discounted cash flow projection, the discount rate used in current and previous estimates should be disclosed and decided to propose amendments in this respect within the AIP.

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IAS 36 – Calculation of value in use

The Committee considered the comment letters received on the tentative agenda decision published in September 2010. Subject to drafting changes, the Committee agreed to finalise the agenda decision not to add this item to its agenda as IAS 36 already contains sufficient guidance. The Committee reiterated that application of any method for calculation of value in use must be consistent with principles in IAS 36.

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IAS 37 – Inclusion of own credit risk in discount rate

The Committee considered a request to clarify whether the discount rate or the cash flows used to calculate provisions under IAS 37 should be adjusted for own credit. The Committee noted that the guidance in IAS 37 was not clear and that the discount rate as defined in IAS 37 (*‘pre tax rate that reflects current market assessment of the time value of money and the risks specific to the liability’*) could be interpreted in different ways.

The Committee noted that the credit risk issue in this specific case is linked to many complex issues in the measurement of liabilities. As such the Committee agreed that the issue cannot be addressed in isolation but instead should be addressed as part of the IASB’s Liabilities project. Therefore, the Committee decided not to add this issue to its agenda.

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IAS 41 – Revenue on sale of agricultural produce

The Committee considered a submission that asserted that Example 1 in the Implementation Guidance accompanying IAS 41 was unclear in its presentation of the statement of comprehensive income, and that this lack of clarity had resulted in divergence in practice. The Committee noted that the IAS 41 illustrative examples were technically not part of IFRSs—they had been prepared by the IASC Staff, not subject to due process and were explicitly not approved by the IASC Board.

The Committee also noted that the issue of how to portray changes in fair value was an issue that was not confined to IAS 41 but could affect all IFRSs in which changes in fair value were to be reported in profit and loss. The Committee decided not to add this issue to its agenda because this is a matter of providing additional application guidance.

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