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IFRS Global office
July 2011

IFRIC Review.

Contents

Key decisions

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

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* – Use of IFRIC 6 by analogy

Summary of Committee discussions

IAS 16 *Property, Plant and Equipment* – Cost of testing

IAS 19 *Employee Benefits* – Defined contribution plans with vesting conditions

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: factors affecting identification of the acquirer

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: business combinations under common control

IFRS 3 *Business Combinations* – Acquirer in a reverse acquisition

IAS 27 *Consolidated and Separate Financial Statements* – Group reorganisations in separate financial statements

IFRS 8 *Operating Segments* – Aggregation of operating segments and identification of the chief operating decision maker

IFRS 3 *Business Combinations* – Definition of a business

IFRS 11 *Joint Arrangements* – Acquisition of interest in a joint operation

Administrative session

Key contacts

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This publication summarises the meeting of the IFRS Interpretations Committee on 7-8 July 2011

Key decisions

IAS 16 *Property, Plant and Equipment* – 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 near final draft of the Interpretation. The Committee discussed the near final draft and decided re-exposure was not necessary given a lack of significant changes in principles from that of the draft Interpretation.

The Committee also decided:

- to permit an entity to apply the revaluation model to the subsequent measurement of its mine assets;
- to remain silent on the timing of recognition of the stripping activity asset;
- to clarify that the basis for allocating production stripping costs between the inventory produced and the stripping activity asset should be based on a relevant production measure; and
- to recommend an effective date of 1 January 2013, with earlier application permitted.

The Committee reached a consensus subject to drafting and will submit the Interpretation to the IASB for ratification at the IASB's September 2011 meeting.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* – Use of IFRIC 6 by analogy

The Committee received a request to clarify whether IFRIC 6 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. The request for clarification relates to when a liability should be recognised for levies that are conditional on an entity existing or participating in an activity on a specified date; akin to the IFRIC 6 decommissioning environment. Two specific examples were provided (a bank levy assessed in the United Kingdom where a bank is taxed at the end of the reporting period with the tax 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 with the tax calculated as a percentage of revenues in the preceding annual period).

The Committee discussed the following issues:

- identifying the obligating event as either the participation in an activity on the date specified by the legislation as compared to other preceding events; and

- whether recognition of a liability in interim reporting is appropriate when the activity and calculation date fall in the same annual financial reporting period.

The Committee decided to add the first issue to its agenda and will decide at a later date whether to add the second issue to its agenda.

Agenda decisions

Issues not added to the Committee agenda:

IAS 16 *Property, Plant and Equipment* – Cost of testing

IAS 19 *Employee Benefits* – Defined contribution plans with vesting conditions

Tentative agenda decisions

Issues tentatively not added to the Committee agenda:

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: factors affecting identification of the acquirer

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: business combinations under common control

IFRS 3 *Business Combinations* – Acquirer in a reverse acquisition

IAS 27 *Consolidated and Separate Financial Statements* – Group reorganisations in separate financial statements

Other issues considered

Issues recommended to the Board as a post-implementation review project

IFRS 8 *Operating Segments* – Aggregation of operating segments and identification of the chief operating decision maker

Issues requiring further analysis for assessment

IFRS 3 *Business Combinations* – Definition of a business

IFRS 11 *Joint Arrangements* – Acquisition of interest in a joint operation

Back to top

Summary of Committee discussions

IAS 16 *Property, Plant and Equipment* – 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 other plants 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 applies to each individual item of property, plant and equipment and indicated that the 'commercial production date' is a different concept from the 'ready for intended use' in paragraph 16(b) of IAS 16. The Committee believes 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 decided not to add this issue to its agenda.

Back to top

IAS 19 *Employee Benefits* – Defined contribution plans with vesting conditions

The Committee received a request for clarification on the effect that vesting conditions have on the timing of expense recognition for defined contribution plans. In the example provided to the Committee, the failure to meet a vesting condition would result in a refund of contributions to, or a reduction of future contributions by the employer.

The Committee discussed the definition of a defined contribution plan in paragraph 7 of IAS 19 and related guidance in paragraph BC5 of IAS 19 which specifies 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 distinguished between the accounting for defined contribution plans and defined benefit plans by noting that accounting for defined contribution plans under paragraph 43 of IAS 19 focuses on the accounting for an employer's obligation to pay contributions to a separate entity that runs the plan as opposed to the accounting for the obligation to the employees who benefit from the plan. Paragraphs 44 and IN5 of IAS 19 specify that contributions to a defined contribution plan should be recognised as an expense or liability (accrued expense) over the period of service that obligates the employer to pay the contribution to the defined contribution plan as opposed to the period of service that entitles an employee to receive the benefit from the defined contribution period (i.e., the vesting period). The recognition of an asset (income) for refunds coincides with the date in which an employee fails to meet the vesting condition. The Committee indicated that there is no significant diversity in practice and therefore decided not to add this issue to its agenda.

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: factors affecting identification of the acquirer

The Committee received a request for guidance on the circumstances or factors that are relevant when identifying an acquirer in a business combination under IFRS 3. The request included a fact pattern in which a group plans to spin off two of its subsidiaries using a new entity (Newco). Newco will acquire these subsidiaries for cash from the parent entity (Entity A) only on condition of the occurrence of Newco's initial public offering (IPO). The cash paid by Newco to Entity A to acquire the subsidiaries is raised through the IPO. After the IPO, Entity A loses control of Newco. The failure to complete the IPO will not result in a change of control.

The Committee observed that the specific fact pattern described in the submission cannot be a business combination under common control, as defined under paragraph B1 of IFRS 3, given that the subsidiaries are not controlled by the same party both before and after the business combination because Entity A would no longer control Newco after the IPO.

The Committee noted that the specific fact pattern presented in not widespread and therefore tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at the September 2011 Committee meeting.

IFRS 3 *Business Combinations* – Business combinations involving newly formed entities: business combinations under common control

The Committee received a request for guidance on accounting for business combinations under common control. Specifically, the submission considered by the Committee illustrated a transaction in which a parent company (Entity A), which is wholly owned by Shareholder A, transfers a business (Business A) to a new entity (Newco) which is also wholly owned by Shareholder A. The submission requested clarification on both the accounting at the time of the transfer of the business to Newco and whether an IPO that might occur after the formation of Newco is considered relevant in analysing the transaction.

The Committee indicated that the fact pattern reflects a business combination under common control as defined by paragraph B1 of IFRS 3 given the consistent controlling ownership both before and after the transfer of Business A. The conclusion that this transfer is a common control transaction should not change because an IPO is expected to occur in the future. Although the Committee believes that the issue of accounting for business combinations under common control is widespread with diversity in practice, they believe that the accounting for business combinations under common control is too broad to be addressed through an interpretation and is best handled by the IASB. Consequently, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at the September 2011 Committee meeting.

Back to top

IFRS 3 *Business Combinations* – Acquirer in a reverse acquisition

The Committee received a request for guidance as to whether a business that is not a legal entity could be considered the acquirer in a reverse acquisition under IFRS 3, citing guidance in paragraph B19 of IFRS 3 implying an acquirer needs to be a 'legal entity'.

The Committee noted that in accordance with paragraph 7 of IFRS 3, the acquirer is 'the entity that obtains control of the acquiree', and further, guidance in Appendix A of IFRS 3 describes the acquiree as 'the business or businesses that the acquirer obtains control of in a business combination'. Paragraph B19 of IFRS 3 requires that the entity whose equity interests are acquired (the legal acquiree) to be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.

The Committee observed that the IASB's current exposure draft *Conceptual Framework for Financial Reporting: The Reporting Entity* does not require a 'reporting entity' to be a legal entity, and while this guidance is not yet authoritative, the Committee believes it reflects current practice. Therefore, the Committee believes that an acquirer that is a reporting entity but not a legal entity can be considered to be the acquirer in a reverse acquisition.

The Committee does not believe that this issue is widespread and therefore tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at the September 2011 Committee meeting.

IAS 27 *Consolidated and Separate Financial Statements* – Group reorganisations in separate financial statements

The Committee received a request for clarification on how entities that are established as new intermediate parents within a group determine the cost of their investments in subsidiaries when they account for these investments in their separate financial statements at cost in accordance with paragraph 38(a) of IAS 27 (amended 2008) or paragraph 10(a) of IAS 27 (revised 2011). The request addresses reorganisations of groups that result in the new intermediate parent having more than one subsidiary.

The Committee noted that the guidance in paragraphs 38B and 38C of IAS 27 (amended 2008) or paragraphs 13 and 14 of IAS 27 (revised 2011) cannot be applied directly to reorganisations of groups that result in the new intermediate parent having more than one subsidiary because the assets and the liabilities of the new group and the original entity or group are not the same immediately before and after the reorganisation. Additionally, guidance in paragraphs 38B and 38C of IAS 27 (amended 2008) or paragraphs 13 and 14 of IAS 27 (revised 2011) should not be applied by analogy to these types of reorganisations given that this guidance was derived as an exception to the normal basis for determining the cost of an investment in a subsidiary under paragraph 38(a) of IAS 27 (amended 2008) or paragraph 10(a) of IAS 27 (revised 2011).

Given the guidance in IAS 27, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at the September 2011 Committee meeting.

IFRS 8 *Operating Segments* – Aggregation of operating segments and identification of the chief operating decision maker

The IASB asked the Committee to review a submission received requesting minor improvements to IFRS 8 in applying the aggregation criteria and identifying the chief operating decision maker (CODM). The request sought that additional disclosure be provided of both the operating segments that have been aggregated and the economic indicators that have been assessed to conclude that operating segments have "similar economic characteristics" in accordance with paragraph 12 of IFRS 8, while also seeking further clarification on the function of the CODM.

The Committee noted the request for additional disclosure in applying the aggregation criteria sought to enhance the possibility of detecting non-compliance with the requirements of IFRS 8. However, Committee members observed that it was not clear that such disclosure was necessary to meet the objectives of IFRS 8. In identifying the CODM, the Committee observed the CODM's responsibilities of allocating resources and assessing performance often are carried out by more than one person and that all persons involved in those activities would be part of the CODM group. The Committee also noted that the CODM would not normally include non-executive directors because they would normally not participate in making operating decisions.

The Committee decided to recommend that the IASB consider these issues as part of a future post-implementation review of IFRS 8.

Back to top

IFRS 3 *Business Combinations* – Definition of a business

The Committee received a request for clarification as to whether an asset with relatively simple associated processes would meet the definition of a business under IFRS 3. The submission questioned whether the acquisition of a single investment property with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services (e.g., rent collection), constitutes a business as defined in IFRS 3.

The Committee reviewed the results of outreach and noted that this issue is widespread with practical relevance and diversity in practice. The Committee questioned whether there is interaction between IAS 40 *Investment Property* and IFRS 3. The Committee considered the guidance in paragraphs 11-14 of IAS 40 in defining services as "ancillary" such that services are not so significant as to disqualify a property from being an investment property. Nonetheless, the Committee acknowledged that the services could be considered processes under paragraphs B7-B12 of IFRS 3, resulting in the acquired set of activities constituting a business.

The Committee directed the staff to perform further analysis on the interaction of IAS 40 and IFRS 3 and the characteristics of a business when investment property is acquired. The Committee asked the staff to consider whether IFRS 3 and IAS 40 are mutually exclusive and whether it would be possible to develop guidance on how to determine if and when an obligation incurred in order to provide services in association with the acquisition of an asset would lead to a business combination.

The staff will present its research at the September 2011 Committee meeting.

IFRS 11 *Joint Arrangements* – Acquisition of interest in a joint operation

The Committee received a request to clarify the accounting by venturers for the acquisition of interests in jointly controlled operations or assets in IAS 31 *Interests in Joint Ventures* and the accounting by joint operators for the acquisition of interests in joint operations, as defined in IFRS 11, when the activities and assets underlying the jointly controlled operations or assets, or the joint operation, constitute a business.

The Committee questioned the unit of account (i.e., the joint arrangement or the interest in the joint arrangement) that should be considered in the application of IFRS 3 and whether the activities and assets related to that unit of account can constitute a business. The Committee specifically questioned whether and how to recognise goodwill, if present, in the acquisition of an interest in a joint operation or jointly controlled operations or assets. The request included an example of the acquisition of an undivided interest in an oil or natural gas producing field.

The Committee directed the staff to perform further research on this issue to assist the Committee in assessing whether the issue could be resolved through annual improvement. The staff will present its further research at the meeting in September 2011.

Back to top

Administrative session

Committee outstanding issues report

The staff is currently researching one agenda issue received by the Committee that has not yet been discussed as part of a Committee meeting. This issue relates to a clarification of circumstances in which the presumption of manner of recovery of investment property can be rebutted in accordance with paragraph 51C of IAS 12 (Revised 2010) *Income Taxes*. Specifically, IAS 12 notes that if a deferred tax asset or liability arises from investment property that is measured using the fair value model in IAS 40, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. A request was made for further clarification as to how to interpret the rebuttable presumption. The staff expects to bring this submission issue to a future meeting.

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

Back to top

Review of Committee's activity statistics

The Committee reviewed its activity statistics and asked the staff to provide an update of such statistics on an annual basis. A summary of the activity statistics is provided below:

	Total 2008	Total 2009	Total 2010	2011 (January to May)
Issues addressed through interpretation (final or draft)	4	2	1	1
Issues addressed through annual improvements	1	2	22	4
Issues addressed through stand alone projects	2	1	3	0
Subtotal–issues addressed	**7**	**5**	**26**	**5**
Issues considered for interpretation for which agenda criteria not met	14	28	20	3
Issues considered for annual improvements but for which no action recommended	0	0	13	4
Total issues considered by the Committee	**21**	**33**	**59**	**12**

Back to top

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Back to top

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