

IFRIC Update is published as a convenience to the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future IFRIC meetings.

Decisions become final only after the IFRIC has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The IFRIC met in London on 6 and 7 September 2007, when it discussed:

- IAS 18 *Revenue*—Customer contributions
- IAS 27 *Consolidated and Separate Financial Statements*—Non-cash distributions
- IFRS 2 *Share-based Payment*—Group cash-settled share-based payment transactions
- IAS 39 *Financial Instruments: Recognition and Measurement*—Paragraph AG33(d)(iii) and Scope of paragraph 11A
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Chairman's comments

The chairman reported that after IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was released a number of press articles and statements by market commentators had provided inaccurate assessments of its effects. A release had been posted on the IASB website to provide a more accurate reflection of the requirements of the Interpretation.

IAS 18 Revenue—Customer Contributions

The IFRIC continued its deliberations on how an entity should account for the receipt of a customer contribution. Such contributions arise when a customer provides an asset to a service provider

that is then used to provide a service to the customer.

The IFRIC reviewed the paper it had asked the staff to prepare explaining how an entity would apply the IFRIC's previous tentative decisions. Those decisions were that an entity that receives a customer contribution should:

- first assess whether it has received an asset that meets the recognition criteria in IFRS;
- assess whether the related service arrangement contains a lease (using IFRIC 4 *Determining whether an Arrangement contains a Lease*);
- record customer contributions at fair value on initial recognition; and
- recognise any resulting credit as a liability representing the obligation to provide an ongoing service. This credit should be recognised in income as access to that service is given.

At its meeting in July 2007 the IFRIC asked the staff to consider the implications of concluding that a leaseback of the contributed asset had occurred. The IFRIC concluded that if an entity determines that there is a finance leaseback the entity supplying the service should re-assess whether the asset meets the recognition criteria. The IFRIC noted that if the entity considered the arrangement as a whole, it would assess that no asset had been transferred and that neither a finance lease receivable nor a liability should be recognised.

The IFRIC then considered the period over which the revenue should be recognised. The IFRIC decided that recognising the revenue over the period of the service contract may not be appropriate in all cases as an entity may be obliged to use the asset to provide access to an ongoing service for reasons other than the existence of a contract. The IFRIC concluded that an entity should recognise revenue over the period that it is obliged to use the asset to provide access to the ongoing service to the customer. The IFRIC noted that if the service to be provided is the ability to obtain access to the ongoing service immediate revenue recognition may be

appropriate. An entity may be obliged because of a contract, statutory requirements, or because of a constructive obligation arising from past practice and expectations.

The IFRIC asked the staff to develop guidance as to factors that an entity should take into account in order to identify the period over which it is obliged to use the asset to give access to the service. In doing so, the IFRIC noted that, in most cases, it would be unlikely that an entity could be required to use such an asset to provide access to an ongoing service for a period longer than the useful economic life of the asset.

The IFRIC then considered the scope of the interpretation. It noted that its discussions to date had focussed on the contribution of an item of property, plant and equipment but that, in many cases, customers would contribute cash towards the construction and / or acquisition of an item of property, plant and equipment.

The IFRIC decided that it should extend the scope of its project to include contributions of cash that the entity is required to use to acquire or construct an item of property, plant and equipment to be used to provide access to a service to the customer.

The IFRIC concluded that the receipt of a cash contribution should be accounted for in the same way as the receipt of an item of property, plant and equipment since both produce substantially similar economic effects.

Copyright © IFRIC Update is published after every IFRIC meeting by the IASC Foundation, Publications Department, 30 Cannon Street, London EC4M 6XH United Kingdom
Tel: +44 (0)20 7332 2730
Fax: +44 (0)20 7332 2749
Website: www.iasb.org
Email: publications@iasb.org
ISSN 1477-206X

The IFRIC asked the staff to develop a draft Interpretation reflecting these conclusions for it to consider at a future meeting.

IAS 27 Consolidated and Separate Financial Statements—Non-cash distributions

The IFRIC continued its discussion of how an entity should account for non-cash distributions to its equity holders in their capacity as equity holders.

At its meeting in July 2007 the IFRIC asked the staff to restructure the analysis by focusing on how an entity should measure dividends payable in accordance with IFRSs.

At this meeting, the staff presented papers considering how an entity should account for non-cash distributions from the time it recognises a dividend payable to the time it settles that liability.

The IFRIC decided that:

- accounting for all dividends payable should be determined by one standard, regardless of the types of the assets to be distributed. Among the IFRSs that deal with how liabilities should be measured, the IFRIC concluded that the most relevant standard was IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In accordance with IAS 37 an entity would be required to consider the fair value of the assets to be distributed in determining the best estimate of the dividend payable.
- when an entity makes the distribution that settles the liability and results in its losing control over the assets distributed, any difference between the carrying amount of the liability for the dividend payable and the carrying amount of the assets distributed should be recognised in comprehensive income.
- no exceptions should be made to the requirement that all dividends payable should be measured in accordance with IAS 37.

In addition to the decisions it made at its July 2007 meeting, the IFRIC decided that the scope of the interpretative project should:

- not include distributions that involve entities under common control; and
- not address how to account for any difference between the carrying amount of the dividend payable and the adjustment to the non-controlling interest in the consolidated financial statements when an entity distributes ownership interests of a subsidiary to its equity holders but retains control over the subsidiary after the distribution. The revised IAS 27 *Consolidated and Separate Financial Statements* will address this issue.

In addition, the IFRIC concluded that the project should not address when an entity should recognise a dividend payable. The IFRIC noted that IAS 37 and the *Framework for the Preparation and Presentation of Financial Statements* set out requirements as to when an entity should recognise a

liability.

The IFRIC also considered whether an entity should apply IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to non-current assets to be distributed. On the one hand, the IFRIC noted that the wording in IFRS 5 suggests that IFRS 5 only applies to non-current assets (or disposal groups) that will be sold. On the other hand, the IFRIC acknowledged that the disclosures required by IFRS 5 would be useful to users of financial statements, especially if the assets to be distributed were a discontinued operation. The IFRIC supported the latter view but noted that it would require amendments to IFRS 5.

The IFRIC asked the staff to bring back to the November 2007 IFRIC meeting:

- a draft Interpretation that reflects the decisions that the IFRIC has made so far;
- a draft of potential amendments to IFRS 5 that the IFRIC could recommend to the Board; and
- a paper focusing on whether, when an entity makes the distribution, any difference between the carrying amount of the dividend payable and the carrying amount of the assets distributed should be recognised in profit or loss or in other comprehensive income.

IFRS 2 Share-based Payment—Group cash-settled share-based payment transactions

At its meeting in July 2007 the IFRIC concluded that the following cash-settled share-based payment arrangements should be within the scope of IFRS 2 *Share-based Payment*:

- Arrangement 1 – The employees will receive cash payments that are linked to the price of the equity instruments of the entity; and
- Arrangement 2 – The employees will receive cash payments that are linked to the price of the equity instruments of the parent of the entity.

In both cases, the parent (not the entity that receives services from the employees) is obliged to make the required cash payments to the employees.

The IFRIC also concluded that the entity should measure services from its employees in accordance with the requirements in IFRS 2 applicable to cash-settled share-based payment transactions.

At this meeting, the IFRIC decided to amend IFRIC 11 *IFRS 2—Group and Treasury Share Transactions* to reflect these tentative decisions. In addition, the IFRIC decided to recommend that the Board amend IFRS 2 to clarify its scope, particularly paragraph 3 of IFRS 2.

The IFRIC considered the staff's proposed amendments to IFRIC 11. The IFRIC agreed with the proposed amendments, subject to some drafting changes. The draft amendments do not change the existing requirements in IFRIC 11. Instead, they add an issue to the Interpretation to specify how the arrangements described above should be accounted for in the financial statements of the entity that receives services from the employees.

As the next steps in this project, the IFRIC asked the staff to ask the Board:

- whether it would object to the draft amendments to IFRIC 11; and
- to approve draft amendments to IFRS 2 to be exposed for comment along with the proposed changes to IFRIC 11 to clarify the scope of IFRS 2 with respect to intragroup arrangements.

IAS 39 *Financial Instruments: Recognition and Measurement*—Paragraph AG33(d)(iii) and Scope of paragraph 11A

In the May 2007 IFRIC *Update* the IFRIC published tentative agenda decisions regarding the application of two paragraphs of IAS 39 *Financial Instruments: Recognition and Measurement*:

- AG33(d)(iii) – The issue relates to assessing the economic environment in which the transaction takes place in the context of determining whether a currency is commonly used in contracts to buy or sell non-financial items and thus is not an embedded foreign currency derivative requiring separation.
- paragraph 11A – The issue relates to whether the fair value option in this paragraph can be applied to all contractual arrangements with one or more embedded derivatives, including contractual arrangements with hosts outside the scope of IAS 39.

The IFRIC considered the responses to both tentative agenda decisions at its meeting in July. In the light of the issues raised by respondents, the IFRIC agreed that the staff should analyse those issues further and make a recommendation to the IFRIC on the action it should take.

The staff reported on the research it had undertaken to obtain additional information from respondents and other constituents. As a result of that research, the staff concluded that although the issues arise on the application of IAS 39, they relate to questions on some of the basic requirements of the standard. Therefore responding to requests for clarification in this case would not constitute providing application guidance but rather would clarify the requirements of the standard itself.

The IFRIC agreed with the staff's conclusion that resolution of these issues will require amendment of IAS 39, and should be referred to the Board. The IFRIC also agreed with the staff's proposal to undertake additional analysis so that the IFRIC can suggest suitable revisions to the standard when the issues are referred to the Board. The IFRIC will reconsider its tentative agenda decisions after the staff has completed this further analysis.

IFRIC agenda decisions

The following explanations are published for information only and do not change existing IFRS requirements. IFRIC agenda decisions are not Interpretations. Interpretations of the IFRIC are determined only after extensive deliberation and due process, including a formal vote. IFRIC Interpretations become final only when approved by nine of the fourteen members of the IASB.

IAS 18 *Revenue*—Guidance on identifying agency relationships

The IFRIC received a request for an interpretation of how IAS 18 *Revenue* paragraph 8 should be applied to situations in which an entity employs another entity to meet the requirements of a customer under a sales contract. The request questioned whether there is a need for more general interpretative guidance in this area.

The IFRIC noted that IAS 18 specifies the accounting for agency relationships. Paragraph 8 states that 'in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.' Paragraphs 6 and 18(d) of the Appendix to IAS 18 refer to the substance of the transaction to identify whether the entity is acting as agent or principal.

The IFRIC acknowledged that no detailed guidance was given in IFRSs on identifying agency relationships. However, the IFRIC believed that:

- determining whether an entity is acting as a principal or as an agent depends on facts and circumstances and that judgement is required;
- any guidance beyond that given in IAS 18 would be more in the nature of implementation guidance than an Interpretation.

For these reasons the IFRIC decided not to develop an Interpretation and to remove this item from its agenda. The IFRIC also decided to recommend to the Board that guidance be included in the Appendix to IAS 18 to help constituents to determine whether an entity is acting as a principal or as an agent.

IAS 19 *Employee Benefits*—Post-employment benefits—Benefit allocation for defined benefit plans

IAS 19 *Employee Benefits* requires entities to attribute the benefit in defined benefit plans to periods of service in accordance with the benefit formula, unless the benefit formula would result in a materially higher level of benefit allocated to future years. In that case, the entity allocates the benefit on a straight-line basis (paragraph 67 of IAS 19). The IFRIC had previously considered whether entities should take into account expected increases in salary in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years.

The IFRIC considered this issue as part of its deliberations leading to Draft IFRIC Interpretation D9 *Employee Benefits with a Promised Return on Contributions or Notional Contributions*. However, the IFRIC suspended work on this

project until it could see what implications might be drawn from the Board's deliberations in its project on post-employment benefits.

The IFRIC noted that the Board will not address this issue for all defined benefit plans in phase 1 of its project on post-employment benefits. However, the IFRIC noted that it would be difficult to address this issue while the Board had an ongoing project that addressed the issue for some defined benefit plans. The IFRIC decided to remove this issue from its agenda.

IAS 39 Financial Instruments: Recognition and Measurement—Hedging future cash flows with purchased options

The IFRIC received requests relating to a situation in which an entity designates an option, in its entirety, as a hedging instrument to hedge a one-sided variability in future cash flows in a cash flow hedge. All changes in the fair value of the option (including changes in the time value component) are considered in assessing and measuring hedge effectiveness.

The requests suggested the following approach to assessing and measuring hedge effectiveness. An entity could compare all changes in the fair value of the purchased option with changes in the fair value of a hypothetical written option that has the same maturity date and notional amount as the hedged item. The requests noted that such an approach would minimise or eliminate hedge ineffectiveness when the terms of the purchased option and the hypothetical written option perfectly matched. The IFRIC was asked whether IAS 39 allows such an approach.

The IFRIC noted that some respondents to its tentative agenda decision believed that the issue was complex and that there was diversity in practice regarding whether the approach suggested or other similar approaches are allowed under IAS 39.

However, the IFRIC decided not to take the issue on to its agenda because the Board has recently decided to propose an amendment to IAS 39 to clarify what risks and cash flows can be designated as hedged risks and hedged portions of risks for hedge accounting purposes. The IFRIC noted that the Board's project will specifically address the issue discussed in this agenda decision.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations—Disclosures

The IFRIC received a request to clarify whether the disclosure requirements of other standards, in the absence of specific exclusion, would apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5. At the May 2007 IFRIC meeting, the staff presented a paper with two alternative views:

- view A: IFRS 5 and other standards that specifically relate to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Disclosures required by other standards do not apply to such assets (or disposal groups);
- view B: disclosures required by IFRSs, whose scope does not exclude non-current assets (or disposal groups)

classified as held for sale or discontinued operations, continue to apply to such assets (or disposal groups).

The IFRIC believed that this issue could be resolved efficiently through an amendment to clarify IFRS 5 and decided to draw the issue to the attention of the Board rather than taking the item on to its own agenda. The IFRIC also believed that such an amendment should generally reflect view A, but believed that additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.

Tentative agenda decisions

The IFRIC reviewed the following matters and tentatively decided that they should not be taken on to the IFRIC agenda. These tentative decisions, including, when appropriate recommended reasons for not taking the item on to the IFRIC agenda, will be reconsidered at the IFRIC meeting in November 2007. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are welcome to communicate those concerns by 17 October 2007, preferably by email to: ifric@iasb.org or by post to:

*International Financial Reporting Interpretations Committee
First Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom*

Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IAS 19 Employee Benefits—Changes to a plan caused by government

The IFRIC was asked to provide guidance on accounting for the effects of a change to a defined benefit plan resulting from action by a government.

The IFRIC noted that IAS 19 already provides guidance on accounting for the effects of changes:

- Paragraph 73 of IAS 19 states that 'actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits' (emphasis added);
- Paragraph 97 of IAS 19 states that 'past service cost arises when an entity introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan' (emphasis added);
- BC 55 of IAS 19 explains the Board's decision to reject the proposal that 'past service cost should not be recognised immediately if the past service cost results from legislative changes (such as a new requirement to equalise retirement ages for men and women) or from decisions by trustees who are not controlled, or influenced, by the entity's management'. That is, the Board did not believe that the source of the change should affect the accounting.

The IFRIC noted that IAS 19 therefore indicated that:

- When a change in a plan caused by a government affects actuarial assumptions, this change should be accounted for as an actuarial gain or loss;
- When a change in a plan caused by a government affects benefits for service before the change, this change should be accounted for as past service cost.

The IFRIC acknowledged that, in some circumstances, it might be difficult to determine whether the change affects either actuarial assumptions or benefits payable and noted that judgement is required. However, the IFRIC noted that although a change in benefits will always require changes in actuarial assumptions, changes in actuarial assumptions relating to the cost of providing benefits do not necessarily imply that the benefits have changed. The IFRIC also noted that any guidance beyond that given in IAS 19 would be more in the nature of implementation guidance than an Interpretation.

For this reason, the IFRIC [decided] not to add this item to the agenda.

IAS 19 Employee Benefits—‘Death in service’ benefits

An entity may provide payments to employees if they die while employed (‘death in service’ benefits). If these benefits are provided as part of a defined benefit plan, IAS 19 requires them to be attributed to periods of service using the Projected Unit Credit Method. The IFRIC received a request for guidance as to how an entity should attribute these benefits to periods of service. The request noted that different treatments existed in practice.

The IFRIC noted that paragraph 67(b) of IAS 19 requires attribution of the cost of the benefits until the date “when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.”

In the case of death in service benefits, the IFRIC noted that:

- the anticipated date of death would be the date at which no material amount of further benefit would arise from the plan;
- using different mortality assumptions for a defined benefit pension plan and an associated death in service benefit would not comply with the requirement in paragraph 72 of IAS 19 to use actuarial assumptions that are mutually compatible; and
- if the conditions in paragraph 39 of IAS 19 were met then accounting for death in service benefits on a defined contribution basis would be appropriate.

The IFRIC concluded that divergence in this area was unlikely to be significant. In addition, any further guidance that it could issue would be application guidance on the use of the Projected Unit Credit Method. The IFRIC therefore [decided] not to add this issue to its agenda.

IAS 19 Employee Benefits—Treatment of employee contributions

The IFRIC received a request to clarify the treatment of employee contributions in accordance with IAS 19. The first issue is how employee contributions should be accounted for in general. The second issue is how to account for a pension plan in which the cost of providing the benefits is shared between the employees and the employer.

On the first issue, the IFRIC noted that paragraph 7 of IAS 19 defines current service cost and that paragraph 120A of IAS 19 implies that contributions by employees to the ongoing cost of the plan reduce the current service cost to the entity. The IFRIC also noted that in accordance with paragraph 91 of IAS 19, employee contributions payable when benefits are paid, such as contributions to a post-employment health care plan, are to be taken into account in determining the defined benefit obligation.

On the second issue, the IFRIC noted that paragraph 85 of IAS 19 states that ‘if the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes’.

Therefore, the IFRIC noted that:

- If the terms of a defined benefit plan include surplus-sharing provisions, the employer’s obligation to use any surplus in the plan for the benefit of plan participants (eg adjusting participants’ benefits or required contributions) should be taken into account when measuring the obligation;
- If the terms of a defined benefit plan include cost-sharing provisions, the employer’s right to increase required employee contributions should be taken into account when measuring the obligation.

For these reasons, and because the IFRIC did not expect divergence in practice, the IFRIC [decided] not to take this item on to the agenda.

IFRIC work in progress

At this meeting, the IFRIC work in progress was discussed as part of the public session. The staff noted that a summary of the issues currently on the IFRIC’s work plan was published as an observer note for this meeting. The staff noted that only four issues had not yet been discussed by the IFRIC – two IAS 19 issues and two new issues that had been submitted in the past month. The staff intended to present all of these issues to the IFRIC at its November 2007 meeting. The two new issues related to foreign exchange gains and losses included in capitalised interest and deposits on returnable containers.

The staff noted that, with the exception of an issue on derecognition, all other items on the list had either been discussed at the current meeting or related to draft Interpretations currently available for comment. The issue on derecognition was currently not being worked on awaiting staff resources.

From July 2006, IFRIC meetings have been audiocast live via the Internet. Audio recordings are available to listen to via the Website and can be accessed via the IFRIC Projects included within the Current Projects area. Please visit the IASB Website at www.iasb.org for more information.

Future IFRIC meetings

The IFRIC's meetings are expected to take place in London, UK, as follows:

2007

- 1 and 2 November

2008

- 10 and 11 January
- 6 and 7 March
- 8 and 9 May
- 10 and 11 July
- 4 and 5 September
- 6 and 7 November

In addition to the meetings listed above, the IFRIC may hold meetings for a preliminary discussion of some staff papers. Attendance by IFRIC members at these meetings is voluntary and no decisions on technical issues will be made. If the IFRIC holds a preliminary meeting, it will normally take place on the Wednesday afternoon before the IFRIC meeting.

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB Website at www.iasb.org before the meeting. Instructions for submitting requests for Interpretations are given on the IASB Website at <http://www.iasb.org/About+Us/About+IFRIC/Propose+Agenda+Item.htm>