INTERPRETATIONS - ISSUES IN PROGRESS (12 April 2011)

Part A: IFRS Interpretations Committee Topics

No	Project	History and Current Status	Next Steps	Timing
1	**Classification of Vesting Conditions** IFRS 2 *Share-based Payment*	In May 2009, the IFRIC received a request to clarify the basis on which vesting conditions, especially performance conditions, can be distinguished from non-vesting conditions. The request arose because constituents are interpreting differently the principle set out in IFRS 2 that the vesting conditions should be those that determine whether the entity receives the required services from the counterparty. The IFRIC decided that further research and analysis were needed to determine: ▪ whether the issues identified in the submission fundamentally relate to the interaction of other conditions with the service conditions; and ▪ whether these types of transactions are widespread and the extent of diversity in practice. The IFRIC will resume its discussion of whether this project should be added to its agenda at a future meeting (*July 2009*). The IFRIC received a status update (Nov 2009). The IFRIC considered two application issues: ▪ does there need to be a direct link between a performance target and an individual employee's service in order for that target to be a performance condition?; and ▪ when determining whether the target qualifies as a performance condition, does it matter whether the specified service period is shorter or longer than the period over which the performance target should be met? The IFRIC noted that the revised guidance issued in January 2008 (IG24) lacked clarity and therefore divergent practices may result when distinguishing between vesting conditions and non-vesting conditions. The IFRIC concluded that consistency could be improved by clarifying the distinction between service, performance and non-vesting conditions and therefore decided to add the issue to its agenda (*Jan*	Propose clarification to the definitions of service conditions and performance conditions through the next *Annual Improvements* cycle. Refer the following issues to the IASB for consideration in a future agenda proposal for IFRS 2: ▪ classification of a non-compete provision ▪ accounting for the interaction of multiple vesting conditions ▪ classification of share-based payments settled net of tax withholding	Next Annual Improvements cycle - mid 2011 Uncertain

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		2010). The IFRIC received a status update from the staff and also began preliminary deliberations on the scope of the project. Staff were asked to consider whether convergence with US GAAP on this matter would be helpful (March 2010). The IFRS Interpretations Committee discussed: ▪ clarifying the definition of a vesting condition and a vesting period; ▪ incorporating into IFRSs definitions of non-vesting, service, performance and other vesting conditions, and definitions of attribution period; ▪ removing from IFRSs the definition of a market condition; ▪ returning to an employee perspective when assessing vesting conditions; ▪ providing further guidance on contingent features and the interaction of multiple vesting conditions; and ▪ including guidance on determining the period over which to recognise compensation cost (the 'attribution period') when an arrangement includes multiple vesting conditions. No decisions were made. Staff have been requested to determine the impact of the proposed changes to IFRS 2 on current practice and to clarify some of the proposed definitions (*May 2010*). At the July 2010 meeting the Committee discussed an analysis of: ▪ the attributes of a performance condition; ▪ the current and proposed accounting for nine examples of specific share-based payment transactions; and ▪ drafting suggestions for consideration by the staff. The Committee tentatively decided that a performance condition should be defined by reference to the operation or activities of the entity but without reference to the proposed attributes and that an IPO and a change of control conditions should be deemed to constitute a performance condition. It was decided that there should be no change to the accounting for SAYE plans (*July 2010*). At the September 2010 meeting, the Committee tentatively decided that:		

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		▪ a non-compete provision should be presumed to be a contingent feature; and ▪ a performance target should fully coincide with an explicit or implicit service requirement for the entire period between grant date and the performance target date in order to constitute a performance condition. The Committee also discussed different options, including interpretation, annual improvement and separate amendment, for proceeding with the agenda project (*Sep 2010*). The Committee decided to propose clarification to the definitions of service conditions and performance conditions through the next *Annual Improvements* cycle. The Committee identified the following as higher priority issues to be addressed in this way: ▪ the correlation between an employee's responsibility and the performance target; ▪ whether a share market index target may constitute a performance condition; ▪ whether a performance target that refers to a longer period than the required service period may constitute a performance condition; and ▪ whether termination of employment is a forfeiture or cancellation event. The Committee concluded that the following issues should be referred to the IASB for consideration in a future agenda proposal for IFRS 2: ▪ classification of a non-compete provision; and ▪ accounting for the interaction of multiple vesting conditions (*Nov 2010*). In March 2011 the Committee also decided to recommend to the IASB that the classification of share-based payments settled net of tax withholding should also be included in a future agenda proposal. (*March 2011*)		
2	**Accounting for production stripping costs** IAS 16 *Property, Plant and*	In June 2009 the IFRIC received a request for guidance in respect of the accounting treatment of stripping costs during the production stage of a mine. The topic was discussed in two separate sessions of the	The Committee asked the staff to bring back a revised draft Interpretation to the May 2011 meeting	May 2011

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	Equipment	IFRIC meeting. The first session gave a brief discussion on the nature of stripping costs and current accounting practices and Niall Weatherstone from Rio Tinto gave a presentation which provided additional background on the mechanics of and economic considerations within the mining industry. In the second session the IFRIC discussed four methods of accounting for stripping costs under various frameworks: ▪ expense production stripping costs as incurred; ▪ capitalise stripping costs as a cost of inventory, as variable production costs; ▪ capitalise stripping costs and attribute to reserves benefited in a systematic and rational manner; and ▪ capitalise stripping costs using a strip ratio. The IFRIC noted that in general, mine development costs qualify for capitalisation and that where production stripping activities create a future benefit for the entity, the related costs would qualify for recognition as an asset, or as part of an asset. The IFRIC agreed that there is diversity in practice and this exists because the issue is not addressed in IFRSs and there is differing guidance in other frameworks e.g. US and Canadian GAAP. Further, as the issue is not going to be addressed in the IASB's *Extractive Activities* project and the issue is sufficiently narrow in nature, the IFRIC decided to add it to its agenda (*Nov 2009*). The IFRIC reviewed and accepted a project plan which proposes the issuance of an interpretation in June 2010. The scope of the proposed interpretation was discussed and the following wording was decided on: *"Accounting for the costs of removal of waste material in a surface mining activity during the production phase"* (*January 2010*). IFRIC Staff presented two papers for discussion in March 2010: ▪ a paper discussing the accounting for the costs of waste removal and the associated benefit; and ▪ a paper discussing the attribution of the stripping cost asset. In respect of the costs of waste removal and		

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		the associated benefit, the IFRIC tentatively agreed: ▪ the benefit to the entity is that of improved access to the ore; ▪ the principle in IAS 16 *Property, Plant and Equipment* should apply, however whether the asset meets the definition of PPE or of an intangible asset will be decided at a future meeting; and ▪ the benefit should be allocated to current and future periods using the specific identification approach. The IFRIC also tentatively agreed that the unit of account is the stripping campaign, and that the asset created should be attributed over the specific ore reserves that benefited from the stripping campaign (*March 2010*). In May 2010. the Committee considered a draft Interpretation and tentatively agreed that: ▪ where costs incurred as a result of a stripping campaign do not meet the definition of an asset, they shall be accounted for as inventory costs in the current period; ▪ when a stripping campaign creates a benefit of improved access, and this benefit meets the definition of an asset (the 'stripping campaign component'), it is accounted for as an addition to, or enhancement of, an existing tangible or intangible asset; and ▪ the stripping campaign component shall be specifically identified with the ore directly benefiting from the stripping campaign. This will also form the basis of its subsequent amortisation or depreciation. Staff are to revise the draft Interpretation to reflect the Committee's discussion and include: ▪ describing the concept of the 'stripping campaign', with the possible inclusion of an explanatory diagram; ▪ explaining the difference between 'suspension' of and 'termination' of a stripping campaign, for the purposes of determining how to account for any remaining carrying amount of the stripping campaign component in these circumstances; ▪ clarifying the transition guidance, especially when an entity is currently		

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		applying the strip ratio approach; and ▪ reflecting the results of additional outreach to determine the nature and extent of any disclosure requirements (*May 2010*). Staff presented in July 2010 a revised draft Interpretation and a paper analysing various transition considerations for entities. The Committee tentatively agreed that: ▪ a 'stripping campaign' should be defined as a systematic process undertaken to gain access to a specific section of the ore base, that is a more aggressive process than routine waste clearing activities. The stripping campaign is planned in advance and forms part of the mine plan. It will have a defined start date and it will end when the entity has completed the waste removal activity necessary to access the ore to which the campaign is associated; ▪ the Application Guidance should include a diagram illustrating the concepts of routine stripping and stripping undertaken as part of a stripping campaign; ▪ an entity should apply the draft Interpretation prospectively to costs incurred from the effective date; and ▪ the scope of the draft Interpretation should continue to include all production stripping costs, not limited to those incurred under a stripping campaign (*July 2010*). In August 2010 the IASB published a Draft Interpretation DI/2010/1 *Stripping Costs in the Production Stage of a Surface Mine.* Comments were due to the IFRS Interpretations Committee by 30 November 2010. *DI/2010/1* proposes: ▪ capitalising production stripping costs that are part of a 'stripping campaign', as a component of the larger asset (i.e. the specific section of an ore body that becomes directly accessible as a result of the stripping campaign); ▪ depreciating/amortising the stripping campaign component over the expected useful life of the section of ore that becomes directly accessible as a result of the 'stripping campaign' (i.e. specific identification approach), based on the units of production method unless		

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		another method is more appropriate; ▪ accounting for routine stripping costs that are not incurred as part of a stripping campaign as a production cost in accordance with IAS 2 *Inventories*; and ▪ on transition, any existing stripping campaign component asset that cannot be directly associated with an identifiable section of the ore body and any existing stripping cost liability balances would be recognised in profit or loss at the beginning of the earliest period presented (*Aug 2010*). On 24 November 2010 the AASB submitted its comments on *DI/2010/1* expressing disagreement with the proposed unit of account and concerns about some of the other proposals. At the January 2011 IFRIC meeting, the staff presented a comment letter summary to the Committee of the comments received on the Draft Interpretation. The Committee discussed the issues raised by the respondents, and it agreed to continue deliberating comments received on the Draft Interpretation. To this end, the Committee asked the staff to bring the following matters back for further discussion at the March 2011 Committee meeting: ▪ A description of the principle for the capitalisation of production stripping costs that did not require definition of nor reference to the term 'stripping campaign', including guidance on the apportionment of costs incurred between ore that is mined in the period (inventory) and the improved access to ore to be mined in the future (long-term asset), and ▪ A refined approach for depreciation/amortisation of the capitalised costs, along the lines of the specific identification approach described in the Draft Interpretation. (*January 2011*) At the March 2011 meeting, the staff presented a paper that discussed a revised principle for capitalising production stripping costs, including guidance on the apportionment of the costs incurred for obtaining a current and a future benefit, and		

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		a refined approach for depreciation/amortisation of the capitalised costs. At the meeting, the Committee tentatively agreed: • with the principle for capitalisation described in the paper, provided that it was linked to specific identification of the 'component' of ore to which the costs relate, and provided that the costs could be measured with reliability; • that a cost allocation approach should be adopted to differentiate between those costs that are allocated to the cost of the asset created by the stripping activities versus those that form part of the cost of inventories, but the Committee did not make a decision between a relative benefit or a residual cost approach, as described in the paper; and • with the revised principle for depreciation/amortisation described in the paper. The Committee asked the staff to bring back a revised draft Interpretation to the May 2011 meeting. (*March 2011*)		
3	**Put options written over non-controlling interests** *IAS 32 Financial Instruments: Presentation*	The Committee received a request to provide guidance on how an entity should account for changes in the carrying amount of a financial liability of a put option, written over shares held by a non-controlling interest shareholder, in the consolidated financial statements of a parent entity. The issue arises because of a potential conflict that the 2008 amendments to IFRS 3 *Business Combinations*, IAS 27 *Consolidated and Separate Financial Statements* and IAS 39 *Financial Instruments: Recognition and Measurement*, has created in the financial instrument guidance in IAS 32 *Financial Instruments: Presentation*, IAS 39 and the guidance in IAS 27. Some constituents believe, consistent with the guidance in IAS 32 and IAS 39 that because a financial liability is initially recognised for the NCI put, subsequent changes in its carrying amount should be recognised in profit and loss. However, other constituents believe changes in the carrying amount of the NCI put should be recognised in equity which is consistent with the guidance in IAS 27. The Committee decided to add the issue to the agenda and directed staff to develop a	The Committee agreed that a scope exclusion from IAS 32 for NCI puts is a viable short-term solution. The Committee asked the staff to consider whether consequential amendments would be necessary to IAS 27 and IAS 39/IFRS 9 if NCI puts were to be excluded from the scope of IAS 32. The Committee recommended that the IASB should consider making an amendment to the scope of IAS 32. The staff will present the Committee's recommendation to the Board at a future IASB meeting.	Uncertain

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		paper that: ▪ includes illustrative examples of the issues discussed; and ▪ assesses the proposed scope of the project (May 2010). The Committee discussed which components of the accounting for NCI puts should be included within the scope of the draft Interpretation and tentatively decided to include guidance for the: ▪ initial recognition of NCI puts proposing that a financial liability should be recognised and initially measured at fair value (the present value of the redemption amount) of the NCI put; and ▪ subsequent measurement of NCI puts, proposing that changes in the carrying amount of a financial liability for a NCI put should be recognised in profit or loss in accordance with the guidance in IAS 39 (*July 2010*). The Committee tentatively decided not to add this issue to its agenda but to recommend that the IASB should address these additional accounting concerns as part of the Financial Instruments with Characteristics of Equity (FICE) project (*September 2010*) The Committee received a significant number of comment letters on the September 2010 tentative agenda decision relating to the request for guidance. Consequently, the Committee decided to add this issue to its agenda, with the objective of addressing on a timely basis the current significant diversity that exists in practice. The Committee requested that the staff work with the FICE project team and consider potential alternative models for the accounting for NCI puts. The Committee asked the staff to seek the Board's views before the next meeting as to whether it should pursue alternatives, including applying derivative accounting for NCI puts, which might require an amendment to other IFRSs in order to implement (*November 2010*). At the January 2011 Committee meeting, the Committee received an education session from the staff of the FICE team to learn of their views on the possible direction and timing of the FICE project so that it could consider how this might influence its decisions on the next steps for		

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		its work on NCI puts. The Committee discussed possible paths forward including consideration of a scope exception from IAS 32. The Committee asked the staff to bring the following matters back for further discussion at the next Committee meeting: ▪ consider the viability of a scope exception from IAS 32; and ▪ should a scope exception be viable, whether an interpretation would then be needed to specify the accounting for NCI puts. (*January 2011*) At the March 2011 Committee meeting, the Committee continued to discuss a possible scope exclusion. The scope exclusion would change the measurement basis of NCI puts to that used for other derivative contracts. Specifically IAS 32, including the requirements in paragraph 23 to recognise a financial liability at the present value of the option exercise price, would not apply to NCI puts. Instead, the requirements in IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9 Financial Instruments for derivative contracts would apply. The scope exclusion would apply only to the consolidated financial statements of the controlling shareholder. In addition, the scope exclusion would apply only to NCI puts with the following features: • The NCI put is not embedded in another contract. • The NCI put contains an obligation for an entity in the consolidated group to settle the contract by delivering cash or another financial asset in exchange for the interest in the subsidiary. The Committee agreed that a scope exclusion from IAS 32 for NCI puts is a viable short-term solution. The Committee asked the staff to consider whether consequential amendments would be necessary to IAS 27 and IAS 39/IFRS 9 if NCI puts were to be excluded from the scope of IAS 32. The Committee recommended that the IASB should consider making an amendment to the scope of IAS 32. The staff will present the Committee's recommendation to the IASB at a future meeting. (*March 2011*)		

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4	**Contingent pricing of property, plant and equipment and intangible assets** IAS 16 *Property, Plant and Equipment* and IAS *38 Intangible Assets*	The Committee received a request asking for guidance on how to account for contingent pricing for the outright purchase of a single item of property, plant and equipment (PPE) or intangible asset. The issues include (i) when to record the liability for such contingent prices and (ii) whether subsequent changes to the contingent price, when recognised, should be recognised in profit or loss or as an adjustment to the cost of the asset purchased. The Committee noted a lack of specific guidance in current IFRSs in relation to contingent prices, for transactions that are not business combinations. It discussed the application of the general requirements in IFRSs with respect to the cost model for PPE and intangible assets and the recognition and measurement of financial liabilities. As part of its discussions, the Committee noted that while certain contingent price arrangements would meet the definition of a financial liability, others would not. It also noted that the timing at which the criteria for recognition of an asset are met might differ from that for a financial liability. With respect to subsequent changes, it noted that IAS 39 Financial Instruments: Recognition and Measurement requires changes to a financial liability recognised for the contingent price payable to be recorded in profit or loss. Some viewed this as being in conflict with the cost model in IAS 16, as they hold the view that IAS 16 requires that the actual amount paid be considered part of the cost recognised for the asset. Having assessed the issue against the Interpretations Committee's agenda criteria, the Committee decided to take the issue onto its agenda with a view to developing an interpretation on the accounting for contingent prices arising from the purchase of single assets. The Committee discussed several possible paths forward, including: ▪ an analogy to IFRS 3 *Business Combinations* which would require the cost of the asset to include the fair value of the contingent consideration at the date of purchase, with subsequent changes to the contingent consideration	The Committee directed the staff to present further analysis on how to account for subsequent changes to the liability at the meeting in May 2011; and to consider whether there are circumstances in which the remeasurement of the liability for the contingent price should be included in the cost of the asset.	May 2011

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		being recognised in profit or loss. ▪ an analogy to IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* which would require the cost of the asset to include an estimate of the contingent consideration at the date of purchase, with subsequent changes to the liability, to the extent that they do not reflect the passage of time, be adjusted against the cost of the asset. (*January 2011*) At the March 2011 meeting, the staff presented the main characteristics of contingent prices identified through outreach activities with a view to outlining the scope of the project. The Committee discussed indicators that are common to contingent prices and that have an effect on the cost of the original asset purchased. The Committee expressed concern over developing an interpretation based on too narrow a scope. The focus should be defining what the cost of the item purchased is. The Committee noted that, where the obligation for the contingent price arises from a contractual agreement, the requirements in IAS 32/IAS 39/IFRS 9 Financial Instruments would apply. The contract would establish an obligation for the contingent price and IAS 32/IAS 39/IFRS 9 would lead to recognising a financial liability on the date of purchase of the asset for the fair value of the contingent payment. The definition of cost in IAS 16 similarly requires that the cost of the asset on the date of purchase should include the fair value of the consideration given (if a reliable estimate can be made), such as an obligation to pay a contingent price. The Committee noted that the initial accounting for contingent prices arising from the purchase of a single asset is consistent with the initial accounting for contingent consideration arising from a business combination under IFRS 3 (2008). The Committee also noted that the core issue is the accounting for the remeasurement of the liability and whether that remeasurement should be recognised in profit or loss, or included as an adjustment to the cost of the asset. The Committee		

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		noted that an initial analysis of IAS 39/IFRS 9 would suggest that the remeasurement should be recognised in profit or loss. However, the Committee expressed concern about whether this was a reasonable depiction of the transaction, noting that IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities had addressed a similar issue in the context of decommissioning, restoration and similar liabilities and had required an adjustment to the cost of the asset. Accordingly, the Committee directed the staff to present further analysis on how to account for subsequent changes to the liability at the meeting in May 2011; and to consider whether there are circumstances in which the remeasurement of the liability for the contingent price should be included in the cost of the asset. (*March 2011*)		
5	IFRIC 15 *Agreements for the Construction of Real Estate*—meaning of continuous transfer of control in real estate transactions	The Interpretations Committee received a request asking for clarification on the meaning of 'continuous transfer' referred to in IFRIC 15. The submission described the sale of residential apartments off plan and that, in some jurisdictions, relevant public authorities may be involved in addition to the direct parties to the sale and purchase transaction (ie the buyer and the developer). The role of such authorities is usually to protect the buyer if the developer defaults. Whilst care should be taken not to offer too generalised an answer for such transactions, because of the effect of different local laws surrounding such real estate activities, the Committee was informed that diversity of views exists for similar types of fact patterns as to whether there is continuous transfer of control while construction is in progress. The Committee expressed concern about evidence received of formal local interpretations of IFRSs on this matter within some of the jurisdictions concerned. Several Committee members observed that IFRIC 15 provides a principle for determining when continuous transfer is achieved and they thought that any further guidance that the Committee might give would be in the form of implementation guidance. They also noted that the Board project on revenue recognition is currently developing guidance on the meaning of	The Committee asked for further input on this issue from interested parties. At the next meeting in May, the staff will update the Committee as a result of this further work and of developments on the revenue recognition project.	May 2011

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		transfer and continuous transfer, with a view to finalising the new IFRS by 30 June 2011. The Committee recommended that the Board should consider the fact pattern of the submission received in its revenue recognition project. Before concluding on this issue, the Committee asked for further input on this issue from interested parties. At the next meeting in May, the staff will update the Committee as a result of this further work and of developments on the revenue recognition project. (*March 2011*)		

Part B: Domestic Topics

No	Project	History and Current Status	Next Steps	Timing
1	***Related Party Disclosures – Managed Investment Schemes (MIS)***	AASB decided to refer the issue of whether an entity can be a key management person to the IFRIC (December 2007). AASB Chairman sent a letter to the IASB requesting the IASB to address this issue when considering the amendments to IAS 24 in relation to state-controlled entities and the definition of a related party. The IASB discussed *State-controlled Entities and the Definition of a Related Party* and decided not to consider in this project whether an entity can be a member of key management personnel (September 2008). It has recently emerged that the issue may also be a concern in New Zealand. A joint letter from the AASB and FRSB has been sent to the IASB requesting that the issue be reconsidered (July 2009). Received a letter from the IASB (see September 2009 Agenda paper 9.2.1) explaining that the issue was not going to be considered by the IASB in its current IAS 24 project as it was beyond the limited scope of the existing project. The letter suggests that the AASB/FRSB consider submitting the issue to the IFRIC (Aug 2009). The Board agreed that the issue should be circulated to National Standard Setters to determine if any other jurisdictions are experiencing the same issue (Sept 2009). The issue was discussed by NSS in April 2010 and the general view that emerged was that the definition of KMP related only to people, but that it would be impracticable in many cases to identify the compensation paid to KMP employed by another entity. Furthermore, the view was noted that a possible principle underlying the disclosure framework was that the information disclosed should be about the entity reporting, not information about other entities, and in certain circumstances it would be best to require disclosure of the fees paid to another entity as compensation. Accordingly the NSS agreed there is a sound basis for seeking to have the IASB amend IAS 24 to remove issues of impracticability and potentially inappropriate disclosures (April 2010). A joint letter from the AASB and FRSB (Agenda paper 17.3 of the AASB's June 2010 meeting) has been sent to the IASB	IFRS Interpretations Committee has referred to IASB *Annual Improvements*	Uncertain

		requesting that the issue be addressed as an Annual Improvement (June 2010). The Committee recommended that the IASB amend, within Annual Improvements, the definition of a 'related party' in IAS 24 to clarify that a management entity that provides KMP services to a reporting entity is deemed to be identified as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity world be disclosed (*Sept 2010*)		
2	***Non-Reporting Entities – Applicability of Standards***	The AASB considered a proposed agenda rejection statement, related issue proposal and submissions received. The AASB reconsidered a draft agenda decision from May 2007 and decided to defer any further action until the project on differential reporting is completed (*June 2008*).	Await outcome of AASB differential reporting project, stage 2.	Timing uncertain