

INTERPRETATION ISSUES IN PROGRESS
(20 November 2009)

Part A: IFRIC Topics

| No | Project | Status | Next Steps | Timing |
|----|---|---|-------------------------------------|----------------------------|
| 1 | <p>Classification of Vesting Conditions</p> <p>IFRS 2 <i>Share-based Payment</i></p> | <p>In May 2009, the IFRIC received a request to clarify how the examples of non-vesting conditions in paragraph IG24 of IFRS 2 should be applied.</p> <p>The IFRIC decided that further research and analysis were needed to determine:</p> <ul style="list-style-type: none"> ▪ 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. <p>The IFRIC will resume its discussion of whether this project should be added to its agenda at a future meeting (July 2009).</p> <p>The IFRIC received a status update (Nov 2009).</p> | To be discussed at the next meeting | January 2010 |
| 2 | <p>Unit of account for forward contracts with volumetric optionality</p> <p>IAS 39 <i>Financial Instruments: Recognition and Measurement</i></p> | <p>In July 2009 the IFRIC received a request to provide guidance on whether a contract that (a) obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash and (b) provides the counterparty with the option to purchase also at a fixed price a fixed number of additional units of the same item can be assessed as two separate contracts for the purpose of applying paragraphs 5-7 of IAS 39.</p> <p>No decisions were made (Nov 2009).</p> | Staff to conduct further research | Timing uncertain |
| 3 | <p>Debt to equity swap in a restructuring</p> <p>IAS 32 <i>Financial Instruments: Presentation</i></p> <p>IAS 39 <i>Financial Instruments: Recognition and Measurement</i></p> | <p>In May 2005, the IFRIC received a request to consider the application of IAS 32 and IAS 39 when an entity issues its own equity instruments in settlement of debt (referred to as a 'debt to equity swap') in a restructuring. The issue is whether the entity should recognise the equity instruments as the carrying amount of the liability or at the fair value of either the liability or the equity instruments issued.</p> <p>The IFRIC noted that IFRSs do not contain specific guidance on accounting for a debt to equity swap, however such a swap can be analysed as consisting of two transactions: the borrower issues new equity shares to the lenders for cash and the lenders then accept that amount of cash in full settlement of the liability. IAS 39 would require an entity to recognise any gain or loss arising from the settlement of the liability in profit or loss. IAS 39 also requires a gain or loss to be recognised in profit or loss when one liability is exchanged for another with substantially different terms. The IFRIC also noted that an entity's equity shares are treated as consideration in both IFRS 2 <i>Share-based Payment</i> and IFRS 3 <i>Business Combinations</i>.</p> <p>The IFRIC also noted that although IFRSs do not contain a general principle for the initial recognition and measurement of equity shares, guidance on specific transactions includes:</p> | To be ratified by the IASB | December 2009 IASB meeting |

| No | Project | Status | Next Steps | Timing |
|----|---------|--|------------|--------|
| | | <ul style="list-style-type: none"> ▪ initial recognition of compound instruments (IAS 32 paragraphs 31 and 32). The amount allocated to the equity component is the residual after deducting the fair value of the financial liability component from the fair value of the entire compound instrument. ▪ the cost of equity transactions and own equity instruments ('treasury shares') acquired and reissued or cancelled (IAS 32 paragraph 33). No gain or loss is to be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. ▪ equity instruments issued in share-based payment transactions (IFRS 2 paragraphs 10-23). For equity-settled share-based payment transactions, the entity measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received (e.g. transactions with employees), the entity measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. <p>The IFRIC further noted that the general principle of IFRSs is that equity is a residual and should be measured by reference to changes in assets and liabilities (<i>Framework</i> and IFRS 2), therefore, equity instruments issued in a debt to equity swap should be measured at the fair value of the liability settled. The IFRIC is concerned that entities might encounter practical difficulties in measuring the fair value of a liability in a structuring, and therefore concluded that equity instruments issued in such a swap should be measured at the fair value of the liability settled or the fair value of the equity instruments issued, whichever is more reliably determinable.</p> <p>The IFRIC also noted that in the current economic environment, the issue is widespread and that divergent interpretations exist which could have significant effects on financial reports. The IFRIC also concluded that the issue is sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs.</p> <p>The IFRIC concluded that although the issue is within the scope of the IASB's project on <i>Financial Instruments with Characteristics of Equity</i>, the urgency and importance of the issue warrants the development of an interpretation and therefore the issue had been added to the IFRIC agenda (July 2009).</p> <p>The IFRIC reviewed a draft interpretation which proposes that:</p> <ul style="list-style-type: none"> ▪ an entity's equity instruments are part of any 'consideration paid' to extinguish the financial liability; ▪ the equity instruments are measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable; and ▪ any difference between the carrying amount of the | | |

| No | Project | Status | Next Steps | Timing |
|----|---------|---|------------|--------|
| | | <p>financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.</p> <p>The IFRIC agreed with these proposals. It also discussed transitional requirements and decided that an entity should apply a change in accounting policy as per IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> from the beginning of the earliest comparative period presented. A consequential amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> was also agreed to permit first-time adopters to use the same transitional requirement.</p> <p>Draft Interpretation D25 <i>Extinguishing Financial Liabilities with Equity Instruments</i> was issued for public comment on 6 August 2009, with responses due by 5 October 2009 (August 2009).</p> <p>The IFRIC considered a revised draft Interpretation and basis for conclusions which addressed issues raised by respondents' comments. The IFRIC redeliberated the scope, the measurement of equity instruments and partial extinguishment.</p> <p>The scope of the interpretation will now clarify that it excludes transactions where:</p> <ul style="list-style-type: none"> ▪ the creditor is also a direct or indirect shareholder, and is acting in its capacity as a direct or indirect existing shareholder; or ▪ the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution from or contribution to the entity; or ▪ the extinguishment of the financial liability by issuing equity shares is in accordance with the original terms of the liability. <p>The IFRIC also concluded that an entity shall initially measure the equity instruments issued to a creditor to extinguish part or all of a financial liability as the fair value of the equity instruments issued unless that fair value is not readily determinable.</p> <p>The IFRIC also clarified that paragraph 49 of IAS 39 is not applied in measuring the fair value of all or part of a financial liability extinguished that includes a demand feature, because the extinguishment transaction suggests that the demand feature is no longer substantive. Further the fair value of the equity instruments issued should be measured at the transaction date which is consistent with the guidance in IFRS 3 <i>Business Combinations</i>.</p> <p>The IFRIC also clarified that the issue of an entity's equity instruments may reflect consideration paid for both the extinguishment of part of a financial liability and the modification of the part of the liability that remains outstanding. Therefore, to reflect this, an entity shall allocate consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding. The entity shall consider this allocation in determining the profit or loss to be recognised on the part of</p> | | |

| No | Project | Status | Next Steps | Timing |
|----|--|--|---|--------------------------------------|
| | | <p>the liability extinguished and in its assessment of whether the terms of the remaining liability have been substantially modified.</p> <p>The IFRIC decided that re-exposure of the draft Interpretation was not required and decided that the Interpretation shall be applied for annual reporting periods beginning on or after 1 April 2010 with early application permitted, also retrospective application is required from the beginning of the earliest comparative period presented (November 2009).</p> | | |
| 4 | <p>Rights issues denominated in a foreign currency</p> <p><i>IAS 32 Financial Instruments: Presentation</i></p> | <p>In May 2009, the IFRIC received a request to reconsider its conclusion in 2005 that a call option entitling the holder to receive a fixed number of the entity's shares for a fixed amount of foreign currency should be accounted for as a derivative liability. The question posed in the request is whether the 2005 conclusion applies to a rights issue when the exercise price is fixed in a foreign currency.</p> <p>In a conventional rights issue, because the rights entitle the holder to receive a fixed number of shares for a fixed amount of cash, the entity would recognise the rights as equity instruments and they would not be remeasured.</p> <p>An entity may issue rights in a currency other than its functional currency because it is listed on exchanges in more than one jurisdiction, therefore in the entity's functional currency, the amount of cash to be received for the issue of shares is not fixed and in accordance with the IFRIC's previous conclusion the right would be considered to be a derivative liability and remeasured through profit or loss until the right is exercised or expired.</p> <p>The IFRIC noted that this conclusion results in the entity's profit or loss being affected by changes in its own share price as well as by changes in FX rates. Further, in the IFRIC's view, the rights issue described above is not similar to the convertible bonds discussed in 2005 because:</p> <ul style="list-style-type: none"> ▪ the rights must be allocated pro rata to existing shareholders; convertible bonds are a separate instrument that may be issued to any investor. ▪ the rights are priced in the various currencies to treat all shareholders equivalently, no matter which exchange the shares/rights are traded on, i.e. shareholders receive rights with an exercise price denominated in the currency in which their shares trade, however convertible bonds could be denominated in any currency the entity chooses. <p>For these reasons, the IFRIC concluded that rights issues with the above characteristics should be classified as equity instruments, however, in accordance with the 2005 conclusion IAS 32 would not permit entities to classify these rights as equity instruments.</p> <p>The IFRIC recognised that the Board's project on the classification of instruments as liabilities or equity might eliminate this question, however they also noted that in the current economic environment, many entities are raising capital by issuing rights so the request has an immediate and widespread practical relevance.</p> <p>Therefore the IFRIC recommended that the Board amend</p> | <p>IFRIC Staff to prepare a paper discussing other questions constituents have raised about the application of the 'fixed for fixed' requirement in IAS 32.</p> | <p>-----</p> <p>Timing uncertain</p> |

| No | Project | Status | Next Steps | Timing |
|----|--|---|--|--------------|
| | | <p>IAS 32 urgently to permit rights issues pro rata to existing shareholders to be classified as equity instruments if the exercise price is fixed in any currency (July 2009).</p> <p>The IASB considered the issue and tentatively decided that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of cash, they should be classified as equity regardless of the currency in which the exercise price is denominated.</p> <p>Consequently, the Board tentatively decided to amend IAS 32 and issued for comment an Exposure Draft with comments due 7 September 2009. The ED proposes that the amendment be applied retrospectively and be effective 90 days after the publication of the amendment with earlier application permitted (July 2009 – IASB meeting).</p> <p>The IASB issued an amendment to IAS 32 in October 2009 which resulted in AASB 2009-10 <i>Amendments to Australian Accounting Standards – Classification of Rights Issues</i> (October 2009 – IASB).</p> | | |
| 5 | <p>Accounting for production stripping costs</p> <p>IAS 16 <i>Property, Plant and Equipment</i></p> | <p>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 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.</p> <p>In the second session the IFRIC discussed four methods of accounting for stripping costs under various frameworks:</p> <ul style="list-style-type: none"> ▪ 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. <p>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 assets, or as part of an asset.</p> <p>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 <i>Extractive Activities</i> project and the issue is sufficiently narrow in nature, the IFRIC decided to add it to its agenda (Nov 2009).</p> | Staff to develop a discussion paper for the next meeting | January 2010 |

Part B: Domestic Topics

| No | Project | Status | Next Step | Timing |
|----|--|--|---|--|
| 1 | <i>Related Party Disclosures – Managed Investment Schemes (MIS)</i> | <p>AASB decided to refer the issue of whether an entity can be a key management person to the IFRIC (December 2007).</p> <p>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.</p> <p>The IASB discussed <i>State-controlled Entities and the Definition of a Related Party</i> and decided not to consider in this project whether an entity can be a member of key management personnel (September 2008).</p> <p>It has recently emerged that the issue may also be a concern in New Zealand.</p> <p>A joint letter from the AASB and FRSB has been sent to the IASB requesting that the issue be reconsidered (July 2009).</p> <p>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).</p> <p>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).</p> | Staff to develop an issues paper for circulation to NSS | December 2009 |
| 2 | <i>Non-Reporting Entities – Applicability of Standards</i> | <p>The AASB considered a proposed agenda rejection statement, related issue proposal and submissions received.</p> <p>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).</p> | Await outcome of differential reporting project. | Timing uncertain – June 2010 at earliest |