

**INTERPRETATION ISSUES IN PROGRESS
(20 January 2010)**

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 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.</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> <p>The IFRIC considered two application issues:</p> <ul style="list-style-type: none"> ▪ 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? <p>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.</p> <p>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 2010).</p>	<p>Staff to develop a paper for discussion.</p>	<p>March 2010</p>
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;</p> <p>(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</p> <p>(b) provides the counterparty with the option to purchase also at a fixed price a fixed number of additional units of the same item</p> <p>can be assessed as two separate contracts for the purpose of applying paragraphs 5-7 of IAS 39.</p>	<p>Expected to be dealt with in the IASB's review of IAS 39</p>	<p>N/A</p>

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		<p>No decisions were made (Nov 2009).</p> <p>The IFRIC recognised that there is diversity in practice but also noted that the IASB has accelerated its project to develop a replacement IAS 39 which is expected by the end of 2010. It is expected that the IASB will consider the scope of IAS 39, including the guidance about contracts to buy or sell non-financial items in paragraphs 5-7 of IAS 39 as part of the replacement standard. Therefore the IFRIC decided not to add this issue to its agenda (Jan 2010).</p>		
3	<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 the need to address 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>

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		<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>		
4	<p>Accounting for production stripping costs</p> <p><i>IAS 16 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> <p>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:</p> <p><i>“Accounting for the costs of removal of waste material in a surface mining activity during the production phase”</i> (January 2010).</p>	<p>Staff to prepare papers to discuss:</p> <ul style="list-style-type: none"> ▪ Costs to be considered by the interpretation; and ▪ Related definition of costs 	March 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	Timing Uncertain
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