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Contents

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This publication summarises the meeting of the IFRS Interpretations Committee on 13-14 November 2012.

Key decisions

IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements* – Variable payments for the separate acquisition of property, plant and equipment and intangible assets

The Committee previously considered a request to clarify the accounting for variable fees in a service concession arrangement. The request for clarification relates to whether these costs should be recognised at the start of the concession arrangement as an asset with an obligation to make the related payment, or treated as executory in nature and recognised over the term of the concession arrangement.

At previous meetings, the Committee asked that the staff develop a principle associated with the accounting for variable concession fees; recognising that it is linked to the more broad issue of variable payments for the separate acquisition of property, plant and equipment and intangible assets outside of a business combination.

At its November 2012 meeting, the Committee was presented with a number of models historically considered by the Committee in accounting for variable payments, including:

- applying the requirements in current IFRSs regarding the accounting for variable payments for the separate purchase of an asset;
- the 'IFRS 3 model', based on the accounting for contingent consideration in IFRS 3 *Business Combinations*; and
- the 'Leases model', based on the tentative decisions taken so far by the International Accounting Standards Board (IASB or 'the Board') in the leases project.

In considering application of the above models, the Committee discussed both the initial and subsequent accounting for variable payments.

The Committee could not reach a consensus on the extent to which variable payments should be included in the initial measurement of the liability on the date of purchase of the asset.

In discussing the subsequent accounting for variable payments, the Committee tentatively agreed that adjustments to the liability other than finance costs should, in some specific circumstances, be recognised as a corresponding adjustment to the cost of the asset acquired.

The Committee directed the staff to prepare a paper to be presented at a future meeting outlining some illustrative examples of cases in which the remeasurement of the liability should be included as an adjustment to the cost of the asset. The Committee also requested that the staff consider the correlation between the initial and subsequent accounting for variable payments for discussion at a future meeting.

IAS 1 *Presentation of Financial Statements* – Disclosures about going concern

The Committee considered a request to clarify the disclosure requirements in IAS 1 when management is aware of material uncertainties about the entity's ability to continue as a going concern.

The Committee tentatively decided that the questions of when and what to disclose about these uncertainties should be addressed as a narrow-focus amendment to IAS 1. The Committee tentatively agreed:

- the high threshold for preparing financial statements on a basis other than going concern is appropriate;
- a threshold for the disclosure of material uncertainties should be identified more clearly in IAS 1;
- IAS 1 should include objectives for this disclosure; and
- the staff should prepare a proposal about what specific disclosures should be required.

The staff intend to present proposals for the narrow-focus amendment to IAS 1 at a future meeting.

IAS 19 *Employee Benefits* – Employee benefit plans with a guaranteed return on contributions or notional contributions

At a previous meeting, in considering a narrow question regarding the impact of the 2011 revisions to IAS 19 on the accounting for contribution-based promises, the Committee acknowledged a broader question about how to account for contribution-based promises. The Committee previously considered this issue and published IFRIC draft Interpretation D9 in 2004 which considered the accounting for contribution-based promises within its scope. However, the Committee suspended this project in 2006 and instead referred the issue to the Board to be included in its project on post-employment benefits. The Board later deferred work on this issue to a future broader project on employee benefits. Therefore, the Committee decided at its May 2012 meeting to reconsider the work it had done when it published draft Interpretation D9.

At its November 2012 meeting, the Committee discussed the measurement of plans that would fall within the scope of its work; considering what discount rate should be used to calculate the present value of the employee benefit and how to measure the "higher of option" in the employee benefit plans.

In discussing discount rates, the staff acknowledged concerns regarding the lack of correlation between the forward rate used to project the assets or index and the discount rate to present value the benefit obligation. Specifically, IAS 19 requires the benefit to be projected forward at the expected rate of return on the "reference" assets or index, while those projected cash flows are discounted to a present value using the rate specified in IAS 19 (generally a high quality corporate bond rate). As a result, some constituents do not believe the measurement of the benefit faithfully represents the risk of the assets that the benefit is based on since the benefit is not defined by reference to the return on the same assets as that discount rate.

The Committee did not make a decision in respect of this issue. Instead, the Committee directed the staff to develop examples illustrating how the proposed measurement approach would apply to different employee benefit plan designs. These illustrative examples will be discussed at a future Committee meeting.

The Committee then discussed measurement of the "higher of option". The "higher of option" relates to when the employee is guaranteed the higher of two or more possible outcomes. IAS 19 does not specifically address measurement of options when using the projected unit credit method.

The Committee tentatively decided the "higher of option" should be measured at its intrinsic value at the reporting date. The Committee also discussed the presentation of changes in the "higher of option" but did not conclude on the issue. The Committee will consider the issue at a future meeting.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Interpretation on levies

In May 2012, the Committee published a draft Interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The comment period ended on 5 September 2012.

At this meeting, the Committee was presented with a summary of the comments received on the draft Interpretation.

The Committee received feedback that a significant number of respondents to the draft Interpretation expressed concern that the proposals would not fairly represent the economic effects of levies when the liability and the corresponding expense are recognised at a point of time. While many acknowledged the proposals as being a correct interpretation of the requirements in IAS 37, these respondents believed that the substance of a recurring levy is that it is a charge associated with a specific period rather than a charge triggered on a specific date. The Committee directed the staff to report this feedback to the IASB.

Notwithstanding the above concerns, the Committee tentatively decided:

- further discussion is required in the accounting for levies with minimum thresholds;
- the scope of the final Interpretation should include both the accounting for levies that are within the scope of IAS 37 and levies whose timing and amount is certain;
- the final Interpretation should exclude from its scope the accounting for liabilities arising from emission trading schemes included in the scope of the IASB's project on emissions trading schemes;
- 'levy' should be a defined term in the final Interpretation;
- the final Interpretation should include guidance on the accounting for the liability to pay a levy in both annual and interim financial statements;
- to confirm the consensus included in the draft Interpretation regarding the accounting for the liability to pay a levy;
- additional effect analysis on the impact of the final Interpretation is not needed;
- no additional disclosures specific to levies are required;
- no specific requirements regarding levies should be included in IAS 34 *Interim Financial Reporting*; and
- to request that the IASB consider the issues regarding the accounting for levies when developing the definition and recognition criteria for a liability in its project on the conceptual framework.

The Committee directed the staff to prepare a paper for discussion at a future meeting which considers: the accounting for levies with minimum thresholds; the accounting for levies that are analysed as exchange transactions; whether the draft Interpretation should refer to other IFRSs in accounting for the debit side of the liability; and a definition for the term 'levy'. The Committee also asked that the staff develop an updated draft Interpretation based on tentative decisions reached at the November Committee meeting.

Summary of Committee discussions

Agenda decisions

IAS 18 *Revenue*, IAS 37 *Provisions, Contingent Liabilities and Contingent Asset*s and IAS 39 *Financial Instruments: Recognition and Measurement* – Regulatory assets and liabilities

The Committee previously considered a request to clarify whether a regulatory asset or regulatory liability should be recognised when a regulated entity is permitted to recover costs or required to refund some amounts independently of the delivery of future services. The request for clarification specifically questions whether the population of customers can be regarded as a single unit of account and, if so, whether it is acceptable to recognise an asset or liability.

The Committee did not address the two specific questions raised in the submission. Instead, the Committee considered the question of recognition of regulatory assets and liabilities more broadly. The Committee acknowledged a previous conclusion in 2005 on the subject of whether or not it would be appropriate to recognise a regulatory asset; ultimately concluding that an entity should only recognise assets that qualify for recognition in accordance with the IASB's conceptual framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 16, IAS 18 and IAS 38. The Committee noted a lack of consequential amendments to these IFRSs subsequent to reaching is previous conclusion to warrant revisiting the issue.

The Committee also acknowledged that as part of the IASB's project on rate-regulated activities, the IASB concluded that the issue could not be resolved quickly. Given the position reached by the IASB, the Committee observed that this issue was too broad for the Committee to address within the confines of existing IFRSs and of the conceptual framework. However, the Committee observed that the IASB recently resumed its comprehensive project on rate-regulated activities in which the IASB expects to publish a discussion paper in the second half of 2013.

On the basis of this analysis, the Committee decided not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement* – Scope of paragraph AG5
The Committee previously considered a request for guidance on several accounting issues that resulted from the restructuring of Greek government bonds (GGBs) in 2012. The Committee previously tentatively concluded that the GGBs surrendered in March 2012 should be derecognised where the new GGBs received as part of the debt restructuring are recognised as new assets. The Committee also considered whether paragraph AG5 of IAS 39 could apply when determining the effective interest rate on initial recognition of those new GGBs. Applying paragraph AG5 of IAS 39 means that the effective interest rate would be determined at initial recognition using estimated cash flows that take into account incurred credit losses.

The Committee noted that paragraph AG5 of IAS 39 applies to acquired assets, which includes both purchased and originated assets. Even though an origination of a debt instrument with an incurred loss is unusual, the Committee identified situations in which such transactions occur. For example, transactions can arise that involve originations of debt instruments outside the normal underwriting process as a result of significant financial distress by an obligor to a pre-existing relationship. This could result in derecognition of the original financial asset and recognition of a new financial asset that has incurred losses on initial recognition. The Committee concluded that the assessment of whether an incurred loss exists on initial recognition of an asset requires judgement.

On the basis of this analysis, the Committee decided not to add this issue to its agenda.

Tentative agenda decisions

IFRS 3 *Business Combinations* and IFRS 2 *Share-based Payment* – Accounting for reverse acquisitions that do not constitute a business
The Committee considered two separate requests to clarify the accounting for reverse acquisition transactions where the accounting acquiree is not a business. The requests included fact patterns in which the former shareholders of a non-listed operating entity become the majority shareholders of the combined entity by exchanging their shares for new shares of a listed non-operating entity. However, the transaction is structured such that the listed non-operating entity acquires the entire share capital of the non-listed operating entity.

The Committee observed that the transactions analysed have some features of a reverse acquisition under IFRS 3 given the former shareholders of the legal subsidiary obtain control of the legal parent. By analogy, the Committee tentatively observed that the non-listed operating entity would be identified and accounted for as the accounting acquirer and the listed non-operating entity would be identified and accounted for as the accounting acquiree in accordance with paragraph B19–B27 of IFRS 3 for reverse acquisitions. In applying the guidance in B19–B27 of IFRS 3, the accounting acquirer is deemed to have issued shares to obtain control of the acquiree.

The Committee tentatively observed that the listed non-operating entity is not a business in accordance with paragraph B7 of IFRS 3, and therefore, would be accounted for as a share-based payment transaction in accordance with IFRS 2. Any difference between the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer (a stock exchange listing service for its shares) in accordance with paragraph 13A of IFRS 2. The Committee observed that a stock exchange listing does not meet the definition of an intangible asset under IAS 38. Therefore, the cost of the service received is recognised as an expense in accordance with paragraph 8 of IFRS 2.

On the basis of this analysis, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at a future meeting.

IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*—Valuation of biological assets using a residual method
The Committee considered a request to clarify paragraph 25 of IAS 41 related to the valuation of biological assets that are physically attached to land. Paragraph 25 permits the use of a valuation basis which is consistent with a residual method to determine the fair value of biological assets that are physically attached to land if the biological assets have no separate market but an active market exists for the combined assets. The submitter expressed concern that the use of the fair value of land (when applying its highest and best use as required by IFRS 13) may result in a minimal or nil fair value for biological assets when its highest and best use is different from its current use.

The Committee noted that the IASB tentatively decided to undertake a limited-scope project on IAS 41 to address the accounting for bearer biological assets. The Committee also observed that application of the highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13.

On this basis, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at a future meeting.

Issues considered for *Annual Improvements*

Annual Improvements to IFRSs 2010-2012 Cycle

The Committee discussed comments received on four proposed amendments that had been included in the exposure draft of proposed Annual Improvements to IFRSs published in May 2012.

Annual Improvements to IFRSs recommended for finalisation

IFRS 8 *Operating Segments* – Aggregation of operating segments

As part of its May 2012 exposure draft, the IASB proposed an amendment to IFRS 8 requiring entities to disclose the judgements made in identifying reportable segments when operating segments have been aggregated, including a description of the operating segments that have been aggregated.

The Committee recommended that the IASB finalise the proposed amendment to IFRS 8.

The Committee further recommended to the IASB that it should eliminate the examples of economic indicators in the proposed new paragraph to avoid confusion. The Committee also recommended further clarifying edits.

As IFRS 8 is largely converged with the equivalent guidance in US GAAP, the Committee also recommended that the staff discuss the proposed amendment with the US Financial Accounting Standards Board (FASB) staff.

IFRS 8 *Operating Segments* – Reconciliation of the total of the reportable segments' assets to the entity's assets

As part of its May 2012 exposure draft, the IASB proposed clarifications to the requirement to provide a reconciliation between the total reportable segments' assets and the entity's assets if segment assets are regularly provided to the chief operating decision maker.

The Committee recommended that the IASB finalise the proposed amendment to IFRS 8.

As IFRS 8 is largely converged with the equivalent guidance in US GAAP, the Committee also recommended that the staff discuss the proposed amendment with the FASB staff.

IFRS 13 *Fair Value Measurement* – Short-term receivables and payables

As part of its May 2012 exposure draft, the IASB proposed an amendment to IFRS 13 clarifying that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

The Committee recommended that the IASB finalise its proposal. However, as a result of constituent feedback to the proposal, the Committee recommended modifying the wording of the proposed amendment to the Basis for Conclusions of IFRS 13. This modification does not change the rationale for deleting the paragraphs in IFRS 9 *Financial Instruments* and IAS 39. Instead, it is intended to further clarify the rationale provided in the exposure draft of proposed Improvements to IFRSs published in May 2012.

Annual Improvements to IFRSs requiring further consideration

IAS 12 *Income Taxes* – Recognition of deferred tax assets for unrealised losses

As part of its May 2012 exposure draft, the IASB proposed amendments to IAS 12 clarifying:

- the assessment of whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset should be made as a combined assessment of all temporary differences that, when they reverse, will give rise to deductions against the same type of taxable income;
- taxable profit against which an entity assesses a deferred tax asset for recognition is the amount preceding any reversal of deductible temporary differences; and
- only actions that create or increase taxable profit are representative of tax planning opportunities.

The Committee considered constituent feedback regarding its proposals.

The Committee acknowledged questions from constituents regarding whether: an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows; and an entity can assume recovery of an asset for more than its carrying amount when estimating probable future taxable profits against which deductible temporary differences can be utilised.

The Committee expressed concern regarding whether these issues could be addressed within the confines of the annual improvements process, or rather, should be undertaken as a narrow-scope amendment to IAS 12. The Committee decided to consult with the IASB regarding the most appropriate course of action.

The staff will present the Committee's question to the IASB at a future IASB meeting.

Issues recommended for inclusion in the next cycle for *Annual Improvements*

IFRS 3 *Business Combinations* – Mandatory purchase of non-controlling interests in business combinations

The Committee considered a request to clarify the accounting for the mandatory purchase of non-controlling interests arising from business combinations in a sequence transaction. The request for clarification relates to the appropriate accounting for a sequence of transactions that begins with an acquirer gaining control over another entity, followed by acquiring an additional ownership interest shortly thereafter as a result of a regulatory requirement to offer to purchase the additional interest, and considers whether the initial acquisition of the controlling stake and the subsequent Mandatory Tender Offer (MTO) should be treated as separate transactions or as one single linked acquisition, and whether a liability should be recognised for the MTO at the date the acquirer obtains control of the acquiree.

The Committee tentatively agreed that the initial acquisition of the controlling stake and the subsequent MTO should be treated as one linked transaction. The Committee tentatively decided to amend IFRS 3 to align the guidance in determining whether the disposal of a subsidiary achieved in stages should be accounted for as one or more transactions with that of the acquisition of a business followed by successive purchase of additional interests in the acquiree.

The Committee also discussed whether a liability should be recognised for the MTO at the date the acquirer obtains control of the acquiree. The Committee noted that IAS 37 excludes from its scope contracts which are executory in nature. Consequently, the Committee tentatively decided to recommend to the IASB that it not amend IFRS 3 for this issue.

IAS 34 *Interim Financial Reporting* – Disclosure of information "elsewhere in the interim financial report"

The Committee received a request to clarify the meaning of "interim financial report" in paragraph 4 of IAS 34 given a perceived lack of clarity regarding whether the term covers only the information reported in the IFRS interim financial statements or includes more generally management reports or other elements.

The Committee tentatively concluded that the interim financial report may include information in addition to IFRS interim financial statements given that paragraph 16A of IAS 34 explicitly states that the required disclosures can be provided outside the notes to the interim financial statements.

The Committee also tentatively concluded that it would be appropriate to include a cross-reference from the interim financial statements to the location of this information, even though IAS 34 does not specifically require such a cross-reference.

As such, the Committee tentatively decided to propose amendments to paragraph 16A of IAS 34 to clarify the meaning of disclosure of information "elsewhere in the interim financial report" and require the inclusion of a cross-reference from the interim financial statements to the location of this information.

Other issues considered

IAS 10 *Events after the Reporting Period* – Reissuing previously issued financial statements

The Committee considered a request to clarify the accounting implications of applying IAS 10 when previously issued financial statements are reissued in connection with an offering document.

The request included a specific fact pattern where an entity is required to reissue its previously issued annual financial statements in connection with an offering document, where the most recently filed interim financial statements reflect matters requiring retrospective application. However, securities law and regulatory practice in this particular jurisdiction does not require the recognition, in its reissued financial statements, of events or transactions occurring between the time the financial statements were first issued and the time the financial statements were reissued.

Many Committee members expressed concern that any decisions made by the Committee may conflict with national laws and regulations, and consequently, preferred that no amendments be made to IFRS.

The Committee requested the staff to draft a tentative agenda decision for consideration at a future meeting.

IAS 19 *Employee Benefits* – Measurement of the net defined benefit obligation (DBO) for post-employment benefit plans with employee contributions

The Committee considered a request to clarify paragraph 93 of IAS 19 (revised in 2011). The submission requested confirmation as to whether paragraph 93 of IAS 19 (revised in 2011) was intended to address measurement of the net DBO only for those plans in which the risk of plan deficits and surpluses is shared with employees through their contributions to the plan, or any plan with employee contributions. The submission also expressed concern with measurement of the net benefit and DBO in periods in which the discount rate increases.

At its September meeting, the Committee noted that the Board previously discussed various aspects of risk-sharing features based on the comments received on the Exposure Draft *Defined Benefit Plans* published in March 2010, including discussion of how to account for the effect of employee contributions. During those discussions, the Board concluded that employee contributions, including expected future contributions resulting from employee service in the current and prior periods, should be considered in calculating the DBO.

Notwithstanding the decisions of the Board, the Committee directed the staff to develop specific examples of how to account for employee contributions in accordance with paragraph 93 of IAS 19 (revised in 2011) for discussion at the November 2012 meeting.

At this meeting, the Committee considered examples illustrating the application of the requirements and the effect of different discount rate and salary growth assumptions on the calculation of the net benefit. The Committee tentatively agreed with the staff analysis was consistent with the requirements in paragraph 93 of IAS 19 (revised in 2011). However, the Committee expressed concern with the practical complexity of the required calculations.

The Committee observed that paragraph 92 of IAS 19 (revised in 2011) states that employee contributions either are set out in the formal terms of the plan or are discretionary. Discretionary contributions are accounted for as a reduction of service costs, while employee contributions established under formal terms are accounted for under paragraph 93 of IAS 19 (revised in 2011). However, the Committee acknowledged a lack of clarity in distinguishing discretionary employee contributions from those set out in the formal terms of the plan.

As a result, the Committee directed the staff to consider concerns regarding distinguishing discretionary and formal employee contributions in developing analysis for discussion at a future meeting.

IAS 19 *Employee Benefits* – Actuarial assumptions: discount rate

The Committee considered a request to clarify the determination of the rate used to discount post-employment benefit obligations. Paragraph 83 of IAS 19 (revised in 2011) notes that the discount rate should be determined by reference to market yields at the end of the reporting period on ‘high quality corporate bonds’ (HQCB). However, IAS 19 does not specify which bonds qualify to be considered ‘high quality’. In practice, the term is generally taken to refer to corporate bonds with one of the two highest ratings from a recognised rating agency (e.g., AAA and AA), but given the financial crisis, the submitter asserted the proportion of corporate bonds with one of the two highest ratings has decreased significantly, and therefore, requested clarification as to whether corporate bonds with a rating lower than AA could be considered a HQCB.

The Committee acknowledged the submitter’s assertion that predominant past practice has been to consider a corporate bond to be of high quality if they receive one of the two highest ratings from a recognised rating agency (e.g., AAA and AA), but noted that IAS 19 does not specify any further guidance on the meaning of the term HQCB. The Committee believed that judgement is required in the determination of what the current market yields on HQCB are; considering also the requirements in paragraphs 84 and 85 of IAS 19 (revised in 2011) which require that the discount rate reflects both the time value of money and estimated timing of benefit payments, but does not reflect actuarial or investment risk, entity-specific credit risk or the risk that future experience may differ from actuarial assumptions.

The Committee also noted that it does not expect that an entity’s method of determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period other than to reflect changes in the time value of money and the estimated timing and amounts of benefit payments. However, the Committee did acknowledge that paragraph 34 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* notes that an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The Committee discussed, but did not conclude on whether a change to an entity's method of determining the discount rate would qualify as a change in accounting policy or a change in estimate. However, the Committee noted that any changes that an entity makes in its accounting policy for determining the discount rate should be applied retrospectively in accordance with paragraph 19(b) of IAS 8, with appropriate disclosure of the effects of that change in accordance with paragraphs 29 and 39 of IAS 8. Similarly, an entity should disclose the significant judgements made in the process of applying the entity's accounting policies in accordance with paragraph 122 of IAS 1.

The Committee will continue to discuss this request for clarification at a future meeting.

Administrative session

Committee outstanding issues report

The Committee deferred work on five new issues and five outstanding issues which will be discussed at a future meeting.

The new issues include:

- An IFRS 10 *Consolidated Financial Statements* issue requesting clarification of the concept of 'protective rights' in IFRS 10.

- An IAS 39 issue requesting clarification on the accounting for a convertible feature of a mandatory convertible debenture in a 50:50 joint venture if the conversion does not result in a change of ownership interest in the joint venture.

- An IAS 28 *Investment in Associates* issue requesting clarification on whether it is appropriate to apply the scope exception for business combinations under common control by analogy to the acquisition of an interest in an associate or a joint venture from an entity under common control.

- An IAS 29 *Financial Reporting in Hyperinflationary Economies* issue requesting clarification about whether IAS 29 is required during hyperinflation when financial statements are prepared in terms of financial capital maintenance, in units of constant purchasing power.

- An IAS 7 *Statement of Cash Flows* issue suggesting a change in the classification basis for cash and cash equivalents to be based on the remaining period to maturity as at the statement of financial position date as opposed to the date of the acquisition of the investment.

The outstanding issues include:

- An IFRS 3 issue requesting clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3.

- An IAS 12 issue requesting clarification of the calculation of deferred tax in circumstances where the entity holds a subsidiary which has a single asset within it.

- A review of past IAS 7 issues related to the classification of cash flows.

- An IAS 40 *Investment Property i*ssue requesting clarification on whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment in accordance with IAS 16 or as investment property in accordance with IAS 40.

- An IAS 2 *Inventories* issue requesting clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make prepayments to the supplier. The staff are monitoring this issue in the context of developments on the Board's revenue recognition project.

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