

IFRIC Review.

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This publication summarises the meeting of the IFRS Interpretations Committee on 6-7 January 2011.

Key decisions

The Committee tentatively agreed to continue with the development of an interpretation on stripping costs in the production phase of a surface mine. The Committee tentatively agreed to abandon the concept of a 'stripping campaign' but instead to develop guidance to assist in applying the existing cost capitalisation principle in IAS 16 *Property, Plant and Equipment*. The Committee agreed that the specific identification approach in the draft interpretation remains valid; however the proposed interpretation would not be too prescriptive and allow judgement based on the type of ore that is likely to be extracted. The Committee agreed to continue its deliberations on impairment testing and transition at a future meeting.

The Committee received a request to clarify whether the gains or losses arising from hedging the risk of changes in the amount of the consideration paid in a business combination due to movements in foreign exchange rates would qualify as being part of the consideration transferred in accordance with paragraph 37 of IFRS 3 *Business Combinations* (revised 2008). The Committee does not expect diversity in practice and noted that paragraph AG98 of IAS 39 *Financial Instruments: Recognition and Measurement* allows an entity to apply hedge accounting when hedging the movements in foreign currency exchange rates for a firm commitment to acquire a business in a business combination. The Committee believes IAS 39 provides sufficient guidance on this matter and therefore there is no need for additional guidance. The Committee tentatively agreed not to add the item to its agenda.

The Committee considered a request for guidance on how to account for contingent payments for the separate purchases of property, plant and equipment or intangible assets. The Committee discussed the application of IFRSs with respect to the cost model for property, plant and equipment and intangible assets and the recognition and measurement of financial liabilities. The Committee noted the conflict between the accounting for changes to a financial liability in IAS 39 and the cost model in IAS 16. The Committee assessed this issue against its agenda criteria and decided to add this issue to its agenda but initially limit the scope of the project to property, plant and equipment.

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Agenda decisions

Tentative agenda decisions

Issues tentatively added to the Committee agenda:

IAS 16 – Contingent pricing of property, plant and equipment and intangible assets

Issues tentatively not added to the Committee agenda:

IFRS 3 – Hedging the foreign exchange risk in a business combination

IAS 8 – Application of IAS 8 hierarchy

IAS 37 – Inclusion of own credit risk in the discount rate

Issues proposed for Annual Improvements:

IAS 1 – Current/non-current classification of debt (rollover agreements)

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Summary of Committee discussions

IAS 1 – Current/non-current classification of debt (rollover agreements)

At the November 2010 meeting, the Committee requested that further outreach be performed on the matter in order to understand the level of diversity in practice. The outreach responses revealed that diversity in practice specifically arose where an existing liability due within 12 months after the reporting date is renegotiated for at least another 12 months, with the same lender on different terms. The Committee tentatively agreed to amend paragraph 73 of IAS 1 *Presentation of Financial Statements* through the annual improvement process to specify that an obligation should be classified as non-current if the obligation is renegotiated with the same lender on the same or similar terms. The Committee also tentatively agreed to include a cross-reference to the derecognition guidance for financial liabilities in IAS 39.

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IAS 8 – Application of the IAS 8 hierarchy

The Committee considered a request to clarify the guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding the use of management's judgement in developing and applying accounting policies, when a particular event, transaction or other condition is not specifically addressed by IFRSs. In particular, the request specifically asked for clarification on whether, when applying the IAS 8 hierarchy, management is required to incorporate into an accounting policy (a) only certain aspects of the treatment prescribed by IFRSs for similar transactions which management judges necessary to produce information that is relevant and reliable; or (b) all aspects of the treatment prescribed by IFRSs for similar transactions regardless of the existence of a potential impact on the relevance and reliability of the information presented. The Committee noted that paragraph 10 of IAS 8 states the principle for the development of accounting policies while paragraphs 11 and 12 provide the process by which the principle should be applied. The Committee expects judgement to be exercised when analogising to another standard and that such analogy should include consideration of all those parts of the standard that are relevant to the particular issue. The Committee tentatively agreed not to add the issue to its agenda.

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IAS 32 – Put options written over non-controlling interests

Following its decision at the November 2010 meeting, the Committee continued its deliberations on put options written over non-controlling interests, considering various alternatives to address the matter. The Committee discussed possibly amending IAS 32 *Financial Instruments: Presentation* to exclude such put options from its scope and developing an interpretation to provide guidance that such put options written over non-controlling interests should be treated as derivatives under IAS 39 or IFRS 9 *Financial Instruments*. The Committee asked the staff to continue researching the matter and will discuss it further at the March 2011 meeting.

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IAS 37 – Inclusion of own credit risk in the discount rate

The Committee confirmed its tentative agenda decision, published in November 2010, not to add this issue to its agenda but agreed to amend the agenda decision wording to include commentary that practice has interpreted the 'risks specific to the liability' in paragraph 47 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to generally exclude credit risk and only include the risk of the liability itself. The agenda decision would also clarify that the republished tentative agenda decision was based on the fact that the Committee does not expect significant diversity in practice.

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Annual Improvements criteria – Comment letter Summary

The Committee considered an analysis of comments received on the IFRS Foundation Consultation Document to add new paragraphs to the IASB Due Process Handbook with regards to the annual improvements process. The Committee suggested making certain modifications to the wording of the proposed qualifying criteria. The Committee members' views will be discussed at the January 2011 IASB Meeting. The IASB will then collate the Committee's comments with its own and share the combined comments with the Trustees.

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