To provide a comprehensive service for those with a special interest in the work of the International Financial Reporting Interpretations Committee (IFRIC) the IFRS Foundation will hold an intensive half-day session immediately before their IFRS conference, on the morning of 28 July 2010. The session will focus on IFRICs 13, 14 and 15.

### Programme

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00</td>
<td>Registration</td>
<td></td>
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<tr>
<td>09:30</td>
<td>Introduction</td>
<td>Bob Garnett, Chairman, IFRIC</td>
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<td>Takatsugu Ochi, Assistant General Manager, Financial Resources Management Group, Sumitomo Corporation</td>
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<tr>
<td>09:35</td>
<td>IFRIC update</td>
<td>Bob Garnett, Chairman, IFRIC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Takatsugu Ochi, Assistant General Manager, Financial Resources Management Group, Sumitomo Corporation</td>
</tr>
<tr>
<td>11:05</td>
<td>Round-table Q&amp;A</td>
<td>Bob Garnett, Chairman, IFRIC</td>
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<tr>
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<td></td>
<td>Takatsugu Ochi, Assistant General Manager, Financial Resources Management Group, Sumitomo Corporation</td>
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<tr>
<td>11:55</td>
<td>Concluding comments</td>
<td>Bob Garnett, Chairman, IFRIC</td>
</tr>
</tbody>
</table>
Agenda

- Overview of the IFRS Interpretations Committee process
- IFRIC 13 Customer Loyalty Programmes Development
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distribution of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
Overview of the IFRS Interpretations Committee Process

IFRIC Due Process Handbook

- Identification of issues
- Setting the agenda
- Meetings and voting
- Development of a draft interpretation
- Comment period and re-deliberation
Agenda setting

- No agenda committee
- All issues submitted are discussed in public based on staff analysis
- Publish reasons for not adding issue to agenda

Agenda criteria

- Widespread and practical relevance
- Significant divergence (existing or emerging)
- Improved financial reporting
- Efficient, cost-effective resolution
- Reach consensus on a timely basis
- No current IASB project will be completed before IFRS Interpretations Committee could respond
Communication

- Observer notes
  - All IFRIC papers
- Webcasting
  - Live and archived by topic
- IFRIC update
  - Decision summary published one week after meeting
- Website
  - Project summaries

Possible solutions to questions

- Explain via agenda decision
  - Reasons for not adding to agenda
- Develop IFRIC interpretation
- Change existing standard
  - Annual improvements project (AIP)
- Include in a current IASB project
Proposed Annual Improvements criteria

- Maintains consistency with existing principles
- Improves IFRSs through providing guidance that:
  - clarifies unclear wording;
  - resolves a perceived conflict;
  - addresses an oversight or undesirable consequence; or
  - addresses a current lack of guidance causes concern.
- Narrow and well defined purpose
- Probable Board will reach agreement on a timely basis
- If the proposed amendment is to an IFRS subject to an IASB project - need to make the amendment sooner
Background

• Customer loyalty programmes are used by entities to provide customers with incentives to buy their good or services.
• If a customer buys goods or services, the entity grants the customer award credit (often described as “points”)
• The customer can redeem the award credits for awards such as free or discounted goods or services.
• The entity may operate the customer loyalty programme itself or participate in a programme operated by a third party.
• The award offered may include goods or services supplied by the entity itself and/or rights to claim goods or services from a third party.

Background

• Typical customer loyalty programmes is “airmiles”

  Ticket to New York : 1,000,000yen

  20,000 airmiles with which you can fly to Okinawa value 40,000yen
**Scope**

(a) Entity grants to its customers as part of a sales transaction

(b) The customer can redeem in the future for free or discounted goods or services

How about credit card companies?

“….credit card providers may provide services and grant award credits to credit card holders but receive consideration for doing so from vendors accepting payments by credit card. Such transactions are within the scope of Interpretation….“ (IFRIC 13 BC4)

**Issues**

- Award Credit shall be recognised and measured by...

  - paragraph 13 of IAS 18
  - paragraph 19 of IAS 18

  ..in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

  Revenue and expenses that relates to the same transaction or other event are recognised simultaneously...any consideration already received for the sale of the goods is recognised as a liability.
**Issues**

- Award Credit should be recognised and measured by...
  
  - or 
  
  paragraph 13 of IAS 18  
  
  ?  
  
  or  
  
  paragraph 19 of IAS 18  
  
  ?

Allocate some of the consideration received or receivables from the sales transaction to the award credits and deferring the recognition of revenue

Providing for the estimated future costs of supplying the awards

**Consensus**

An entity shall apply paragraph 13 of IAS 18

- Account for award credits as a separately identifiable component of the sales transaction in which way they are granted.
- The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.
- The consideration allocated to the award credits shall be measured by reference to their fair value, ie the amount for which the award credits could be sold separately.
- If the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and the entity fulfils its obligations to supply.
Consensus

Consideration: 1,000,000yen
Allocate consideration into two separate components of the sales transaction.

- New York
  - Ticket to New York: 1,000,000yen
  - 20,000 airmiles with which you can fly to Okinawa value 40,000yen
  - New York 960,000yen
    - Recognise sales at the time of New York flight
- Okinawa
  - 40,000yen
    - Recognise sales at the time of Okinawa flight

Issue

- If a third party supplies the awards, how should revenue be measured?

A retailer of electrical goods

- Payment for airmiles
- Airmiles
- TV set
- Consideration
- Customers loyalty programme operated by airline
Consensus

- If the third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account or on behalf of the third party.

- If entity collecting the consideration as:
  - Agent: recognise revenue net = 1,000 yen
  - Principal: recognise revenue gross = 10,000 yen

A retailer of electrical goods

Payment for airmiles: 9,000 yen

Consideration: 10,000 yen

Customers loyalty programme operated by airline

Airmiles: 10,000 yen
Background

• IAS 19 limits the measurement of a defined benefit asset to
  – ‘the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan’ plus unrecognised gains and losses.
  
• When should refunds or reductions in future contributions be regarded as available, particularly when a minimum funding requirement exists?

Update

• Board published exposure draft *Defined Benefit Plans* in April 2010 with a comment deadline of 6 September 2010
  – Incorporated IFRIC 14 into the recognition and measurement section of IAS 19 in the exposure draft
Background

• Residential, commercial or industrial developments
• Construction often spans more than one accounting period, may take place on land and may require progress payments
• Divergence in practice in accounting for agreements for the construction of real estate
  – Some jurisdictions apply IAS 11 Construction Contracts and recognise revenue as construction progresses
  – Other jurisdictions apply IAS 18 Revenue and recognise revenue only when the completed real estate is delivered
Scope and issues

• Scope
  – accounting for revenue and associated expenses when undertaking construction of real estate directly or through subcontractors
  – agreements for the construction of real estate.
    – may include the delivery of other goods or services (e.g., sale of land, property management services)

• Issues
  – Is the agreement within the scope of IAS 11 or IAS 18?
  – When should revenue from the construction of real estate be recognised?

Consensus - Flowchart

Can components other than for the construction of real estate be identified within the agreement (e.g., a sale of land or provision of property management services)?

(see paragraph 8 of the interpretation)

Yes

Split the agreement into separately identifiable components

Allocate the fair value of the consideration received or receivable to each component

Separate components

Component(s) for the delivery of other goods or services

Apply IAS 18

Component for the construction of real estate and directly related services (in accordance with paragraph 4 of IAS 18)

(see paragraph 11 of the interpretation)

No

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Consensus - Flowchart

- Agreement is a construction contract (apply IAS 11)
  - Recognise revenue by reference to the stage of completion of the contract activity
- Agreement is not a construction contract (apply IAS 18)
  - Agreement for the rendering of services
    - IAS 18 requires percentage of completion method
  - Agreement for the sale of goods
    - Apply paragraph 14 of IAS 18
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Background and issues

- Guidance in relation to hedges of a net investment in foreign operations on:
  - identifying foreign currency risks that qualify as a hedged risk;
  - the amount of a hedged item for which a hedging relationship may be designated;
  - where, within a group, hedging instruments can be held to qualify for hedge accounting; and
  - determining amounts to be reclassified from equity to profit or loss for on disposal of a foreign operation.
Background and issues

- When an entity declares a distribution and has an obligation to distribute assets to its owners, it must recognise a liability for the dividend payable.

- Interpretation addresses the following issues:
  
  (a) When should the entity recognise the dividend payable?
  
  (b) How should an entity measure the dividend payable?
  
  (c) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?
Measurement of a dividend payable

- Measure at fair value of the assets to be distributed
- If owners have a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both:
  - fair value of each alternative; and
  - the associated probability of owners selecting each alternative.

Accounting for credit balance when an entity settles the dividend payable

- When an entity settles the dividend payable, the difference, if any, between the:
  - carrying amount of the assets distributed; and
  - carrying amount of the dividend payable
  is recognised in profit or loss
Background and issues

• In some industries especially the utilities industry, an entity may receive from its customers assets which must be used to provide them with services.

• Issues
  – How should the transferred item be recognised and measured on initial recognition?
  – How should the resulting credit be accounted for?
  – How should the entity account for a transfer of cash from its customer?
How should the transferred item be measured on initial recognition?

• Transferred item recognised as an asset of an entity when it meets the definition in the *Framework*
• Transferred item measured at fair value on initial recognition.

How should the resulting credit be accounted for?

• Recognise revenue in accordance with IAS 18
  – If only one service is identified, recognise revenue when the service is performed
  – If more than one services are identified, allocate to each services and recognise revenue
  – If a service is identified as part of the agreement, revenue shall be recognised over a period of the ongoing service
Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.