IFRS Foundation
Special Interest Session

IFRIC Update

28 July 2010— Mandarin Oriental Hotel (Tokyo)

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

09:00 ***Registration***

09:30 ***Introduction***
Bob Garnett
Chairman
IFRIC

09:35 ***IFRIC update***
- Bob Garnett—*Chairman*, **IFRIC**
- Takatsugu Ochi—*Assistant General Manager, Financial Resources Management Group*, **Sumitomo Corporation**

11:05 ***Round-table Q&A***
- Bob Garnett—*Chairman*, **IFRIC**
- Takatsugu Ochi—*Assistant General Manager, Financial Resources Management Group*, **Sumitomo Corporation**

11:55 ***Concluding comments***
Bob Garnett
Chairman
IFRIC

28 July 2010

International Financial Reporting Standards

IFRS Interpretations Committee Update

July 2010

Bob Garnett – Chairman, IFRS Interpretations Committee

Takatsugu Ochi – Member, IFRS Interpretations Committee

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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*

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Overview of the IFRS Interpretations Committee Process

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

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

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IFRIC 13 *Customer Loyalty Programmes*

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Background

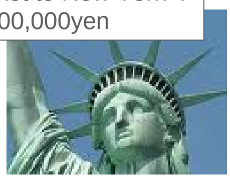
- Customer loyalty programmes are used by entities to provide customers with incentives to buy their good or services.
- If a customer buys goods or services, the entity grants the customer award credit (often described as “points”)
- The customer can redeem the award credits for awards such as free 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 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 ? or paragraph 19 of IAS 18 ?

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.
New York + Okinawa	New York + Okinawa - Liability

Issues

- Award Credit should be recognised and measured by…

paragraph 13 of IAS 18 ? or paragraph 19 of IAS 18 ?

New York + Okinawa

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

New York + Okinawa - Liability

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

Ticket to New York ： 1,000,000yen

Consideration ： 1,000,000yen

Allocate consideration into two separate components of the sales transaction.

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

Customers loyalty programme operated by airline

Payment for airmiles

Airmiles

TV set

Consideration

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 = 1,000yen

  Principal: recognise revenue gross = 10,000yen

Customers loyalty programme operated by airline

A retailer of electrical goods

Payment for airmiles: 9,000yen

Airmiles:10,000yen

Consideration: 10,000yen

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IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

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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

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IFRIC 15 *Agreements for the Construction of Real Estate*

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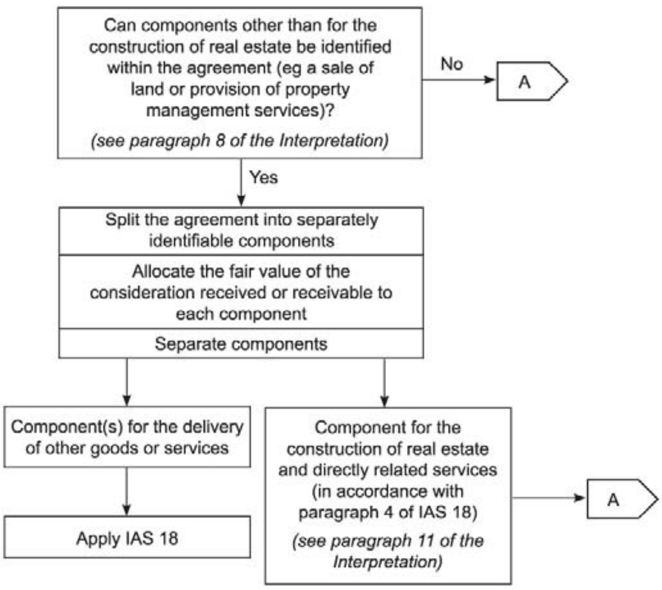
Background

- 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 (eg 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



Consensus - Flowchart

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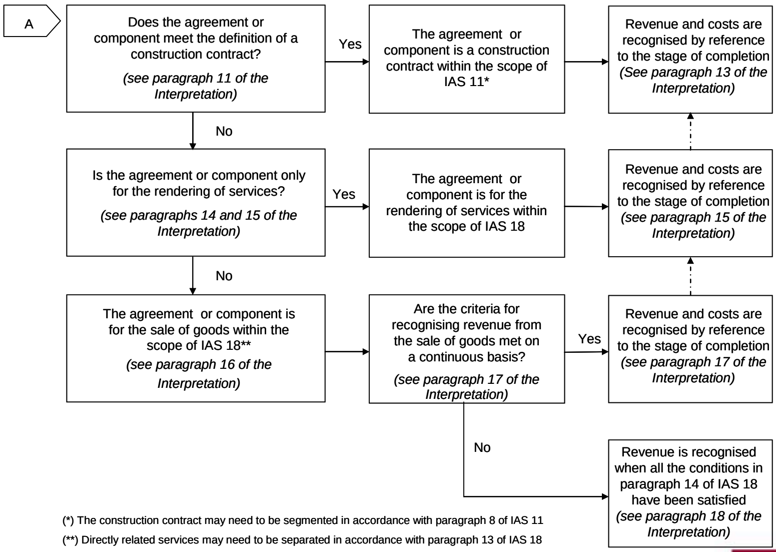

(*) The construction contract may need to be segmented in accordance with paragraph 8 of IAS 11

(**) Directly related services may need to be separated in accordance with paragraph 13 of IAS 18

Consensus

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- 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

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IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

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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.

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IFRIC 17 *Distribution of Non-cash Assets to Owners*

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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

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IFRIC 18 *Transfers of Assets from Customers*

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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?

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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.