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International
Accounting Standards
Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **July 2008, London**
Project: **IFRIC Issues Being Considered by the IFRIC (Agenda Paper 7)**

IFRIC Issues Being Considered by the IFRIC

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 7-2	Classification of expenditure on unrecognised assets (request received November 2007)	IAS 7	The issue is how expenditure on unrecognised assets should be classified in the cash flow statement. The issue arose because some entities classify such cash flows as investing activities. Others believe that they must always be classified as operating activities.	The IFRIC discussed the issue at its January 2008 meeting and tentatively decided not to add the issue to its agenda. This decision was confirmed at the March 2008 meeting. The IFRIC referred the issue to the Board with a recommendation that IAS 7 be amended to make explicit that only an expenditure that results in a recognised asset can be classified as a cash flow from an investing activity. At its June meeting the Board included the issue in the 2008 annual improvements and agreed with the IFRIC's recommendation.
IAS 18-3	Real estate sales	IAS 18	The issue is when revenue should be recognised for real estate sales in which agreements for sale are reached before construction is complete. Should the sale agreements be treated as construction contracts (with revenue being recognised on a percentage of completion basis) or as agreements for the sale of goods (with revenue recognised in accordance with IAS 18)? If the latter, how should IAS 18 be applied?	A Draft Interpretation was approved by IFRIC in its May 2007 meeting. The Board did not object to its publication and IFRIC D21 was published in July 2007. In January 2008, the IFRIC discussed the comments received and asked the staff to perform some further analysis. The IFRIC continued its redeliberations at its March 2008 meeting. The IFRIC approved the final Interpretation at the May 2008 meeting and directed the staff to present it to the Board for ratification. The IASB approved the Interpretation at its meeting in June.

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 18-7	Customer contributions	IAS 18	The issue is how entities should account for contributions of property, plant and equipment (or cash that must be used to construct or acquire property, plant and equipment) that must then be used to provide access to a supply of goods or services to customers.	The IFRIC decided to add this issue to its agenda in May 2007. A Draft Interpretation was approved by the IFRIC in its November 2007 meeting. The Board did not object to its publication and IFRIC D24 was published in January 2008 with comments due 25 April 2008. The IFRIC will consider the analysis of comment letters and begin its redeliberations at its meeting in July 2008.
IAS 19-14	Settlements as part of the terms of the plan (request received November 2007)	IAS 19	The issue is whether, if a pension plan gives employees the choice between a lump sum payment or an annuity, the payment of the lump sum constitutes a settlement.	In January 2008, the IFRIC was unable to decide whether to add this issue to its agenda and asked the staff to undertake further research. In March 2008 the IFRIC tentatively decided not to add this issue to its agenda. The IFRIC considered comments received and confirmed its tentative agenda decision at its May 2008 meeting.

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 21-1	Hedges of a net investment in a foreign operation	IAS 21	The principal issues are: 1) between which currencies the risk in a net investment arises; and 2) in which entity within a group the instrument hedging a net investment may be held.	A Draft Interpretation was approved by IFRIC in its May 2007 meeting, subject to drafting changes. The Board did not object to publication and IFRIC D22 was issued in July 2007. The staff presented a comment letter analysis to the IFRIC in its January 2008 meeting. At the March 2008 meeting, the IFRIC considered a comprehensive example developed by staff to illustrate the application of the IFRIC's conclusions as well as outstanding concerns raised by respondents. The IFRIC approved the final Interpretation at the May 2008 meeting and directed the staff to present it to the Board for ratification. The IASB approved the Interpretation at its meeting in June.
IAS 27-5	Distributions of non-cash assets to owners	IAS 27	The issue is how an entity should account for distributions of non-cash asset to its owners acting in their capacity as owners.	The IFRIC decided to add the issue to its agenda at the May 2007 meeting. A Draft Interpretation was approved by the IFRIC in its November 2007 meeting. The Board did not object to its publication and IFRIC D23 was published in January 2008 with comments due 25 April 2008. The IFRIC will consider the analysis of comment letters and begin its redeliberations at its meeting in July 2008.

Amendments Proposed by the IASB, Comments Being Considered by the IFRIC

Reference number	Topic	Relevant IFRS	Brief description	Progress
IFRS 2-10	Group cash-settled share-based payment transactions	IFRS 2	The issue is how to account for cash-settled share-based arrangements in the financial statements of a subsidiary that receives services from its employees when the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the cash payments needed and: • the employees will receive cash payments based on the price of the equity instruments of the subsidiary, or • the employees will receive cash payments based on the price of the equity instruments of the parent.	At its July 2007 meeting, the IFRIC agreed that both arrangements should be within the scope of IFRS 2. At its September 2007 meeting the IFRIC considered a text of a tentative agenda decision as well as a draft of potential amendments to IFRS 2 and consequential amendments to IFRIC 11. At its October 2007 meeting, the Board decided to propose amendments to IFRS 2 and IFRIC 11. The Board asked the staff to prepare an exposure draft. The exposure draft was issued in December 2007 with comments requested in March 2008. The IFRIC considered an analysis of comment letters at its meeting in May 2008 and will begin redeliberations at its July 2008 meeting.

IFRIC Issues Being Considered by Staff

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 17-8	Recognition of lease expense under an operating lease (request received April 2008)	IAS 17	The issue is on how a lessee should determine an appropriate pattern of recognition of expense for an operating lease with non-level payments.	The staff will present a paper recommending whether the issue should be added to the IFRIC agenda at the July 2008 meeting.
IAS 18-9 IAS 39-18	Accounting for trailing commissions (request received April 2008)	IAS 18/ IAS 39	The issue is when to recognise revenue for commissions received by financial advisors after the original services are provided.	The staff will present a paper recommending whether the issue should be added to the IFRIC agenda at the July 2008 meeting.
IAS 32-6	Transaction costs to be deducted from equity (request received May 2008)	IAS 32	The issue is determining the extent of transaction costs to be accounted for as a deduction from equity in accordance with IAS 32 paragraph 37. A second related issue is how the requirements of IAS 32.38 to allocate transaction costs that relate jointly to more than one transaction should be applied.	The staff will present a paper recommending whether the issue should be added to the IFRIC agenda at the July 2008 meeting.

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 37-3	Regulatory liabilities in certain regulated industries (request received January 2008)	IAS 37 and IAS 18	The issue is whether regulated entities could or should recognise a liability (or asset) as a result of price regulation by regulatory bodies or governments.	The staff was aware that another group was intending to request an Interpretation with the same or similar scope and were awaiting receipt of that request. In the interim, staff undertook some preliminary research and developed a project plan for making a recommendation to IFRIC on an agenda decision. The project plan was presented and approved at the May 2008 IFRIC meeting. The staff is still researching the various forms of regulation that might be affected by any Interpretation. In addition, the staff is contacting users of regulated entity financial statements to obtain input on information they find useful. The staff currently expects that the IFRIC will begin deliberations on whether it should add the issue to its agenda in September 2008.
IAS 38-6	Compliance costs for REACH (request received may 2008)	IAS 38	The issue is how costs incurred to comply with the requirements of the European Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) should be treated.	The staff will present a paper recommending whether the issue should be added to the IFRIC agenda at the July 2008 meeting.

Reference number	Topic	Relevant IFRS	Brief description	Progress
IAS 39-2	Derecognition	IAS 39	The principal issues are: 1) How the derecognition tests should be applied to groups of financial assets. In particular, when a group of financial assets should be considered similar; and 2) When the pass through tests in IAS 39 should be applied to a transfer of a financial asset.	At its July 2006 meeting, the IFRIC decided to refer these issues to the Board for clarification. At the September 2006 Board meeting, the Board discussed these issues. The Board's observations were communicated to the IFRIC at its November 2006 meeting. The IFRIC decided not to take the issue on to the agenda. A tentative decision was published in the November 2006 IFRIC *Update*. At its January 2007 meeting, the IFRIC decided to add a limited scope project on derecognition to its agenda. The staff will prepare papers for discussion at a future IFRIC meeting.
IAS 39-17	Application of the effective interest rate method (request received February 2008)	IAS 39	The issue is how an entity should apply the effective interest rate method to a financial debt instrument that has payments (principal and interest) linked to changes in an inflation index.	At its May 2008 meeting the IFRIC tentatively concluded that it should not add the issue to its agenda. The IFRIC will consider any comments received on its tentative decision at its July 2008 meeting.
IAS 39-19	Valuation of restricted securities (request received June2008)	IAS 39	The issue is whether a discount must be applied to the quoted market price when establishing the fair value of a security quoted in an active market when there is a contractual, governmental or other legally enforceable restriction that prevents the sale of the security for a certain period.	The staff will present a paper recommending whether the issue should be added to the IFRIC agenda at the September 2008 meeting.

Reference number	Topic	Relevant IFRS	Brief description	Progress
IFRS 3R-1	Customer related intangible assets (request received May 2008)	IFRS 3R	The issue is how to distinguish contractual from non-contractual customer relationships for the purpose of recognising the identifiable assets of the acquiree separately from goodwill.	The staff is conducting preliminary research with IFRIC members and members of the valuation community to determine the views held by constituents and the extent of diversity in practice. The staff expects to present a paper recommending whether the issue should be added to the IFRIC agenda at the September 2008 meeting.