IFRS Discussion Group

Report on the Public Meeting

April 19, 2012

The IFRS Discussion Group is a discussion forum only. The Group's purpose is to assist the Accounting Standards Board (AcSB) regarding issues arising on the application of International Financial Reporting Standards (IFRSs) in Canada. The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the AcSB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by the staff of the AcSB and is based on discussions during the Group's meeting.

Comments made in relation to the application of IFRSs do not purport to be conclusions about acceptable or unacceptable application of IFRSs. Only the IFRS Interpretations Committee or the International Accounting Standards Board can make such a determination.

(*For a full understanding of the discussions and views expressed at the public meeting, listen to the audio clips*).

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Updates on the IFRS Interpretations Committee's Outreach Requests and Other Activities

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ITEMS PRESENTED AND DISCUSSED AT THE APRIL MEETING

First Annual IFRS Financial Statements

Group members discussed their experiences and observations relating to the first annual financial statements prepared in accordance with IFRSs.

Several Group members noted that the majority of the work to make the transition to IFRSs was completed by the time the first quarter IFRS financial statements were filed. As a result, completing the annual IFRS financial statements was generally uneventful.

Group members observed that the transition was smooth given that the transition projects generally started early and unfolded as intended. Some Group members noted that small reporting issuers with relatively few financial reporting resources struggled more, particularly those in the resource sector.

Although some had feared that all sorts of issues would be found when the annual IFRS financial statements were audited, Group members noted that this result was not generally the case. Overall, a high percentage of entities did a quality job of preparing for the transition.

Several members observed that, as expected, the financial statements were longer than in previous years, in part, due to the transition disclosures required under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Group members expressed interest in discussing the issue of disclosure overload as well as the application of materiality to disclosures at a future meeting. Group members noted several other potential future agenda topics, including a discussion about scoping issues relating to IAS 12 *Income Taxes*.

Going Concern Language in SEC Filings

When an entity prepares its financial statements in accordance with IFRSs and management has identified material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity makes disclosure of such material uncertainties in its financial statements in accordance with paragraphs 25 and 26 of IAS 1 *Presentation of Financial Statements*.

Canadian Auditing Standard (CAS) 570, *Going Concern*, requires that the auditor include in its audit report an Emphasis of Matter paragraph when a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The wording "may cast significant doubt" is used in an illustrative example of an excerpt from the auditor's report in paragraph A21 in CAS 570.

Similar to CAS 570, auditing standards in the United States require the auditor to include a paragraph in its audit report when events or circumstances exist that cast "substantial doubt" on the entity's ability to continue as a going concern (Public Company Accounting Oversight Board (PCAOB) Auditing Standard 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU 341)). However, unlike CAS 570, PCAOB AU 341 prohibits the auditor from using conditional language (for example, "may") in expressing its conclusion concerning the existence of substantial doubt. Also, the U.S. Securities and Exchange Commission (SEC) released guidance relating to the auditor's report in paragraphs c and d of Section 4230.1 of its Financial Reporting Manual that supports these requirements in PCAOB AU 341.

The Ontario Securities Commission's OSC Staff Notice 52-720, "Office of the Chief Accountant Financial Reporting Bulletin," discusses the IAS 1 going concern disclosure requirements as well.

The issue considered by the Group was how the PCAOB and SEC requirements relating to auditor's reports affect CAS audit reports and IAS 1 going concern disclosures for entities listed in both Canada and the United States.

The Group's Discussion

Group members observed that Canadian public companies that file financial statements with the SEC can be divided into two categories:

- Entities with an auditor's report that refers to the PCAOB auditing standards (for example, all Form 20F filers and Form 40F filers that require integrated audits).
- Entities with an auditor's report that does not refer to the PCAOB auditing standards because these SEC registrants are permitted to file an auditor's report under CASs (for example, Form 40F filers that do not require integrated audits).

The Group discussed the issue in the context of each category.

First Category – When PCAOB Standards Are Referred to in the Auditor's Report

Group members noted that CAS 570 and PCAOB AU 341 were drafted with the same intent. Both standards require the auditor's report to include an Emphasis of Matter paragraph that draws attention to material uncertainties about the entity's ability to continue as a going concern. Group members observed that using the PCAOB AU 341 language (i.e., referring to "substantial doubt" and removing the conditional language of "may") does not appear to violate CAS 570 requirements.

Group members noted that PCAOB AU 341 requires the specific phrase "substantial doubt" to appear in the auditor's report rather than "significant doubt". Some Group members noted the

two phrases have the same meaning for most people and this difference in terminology is not a concern. Group members observed that it is important that the going concern disclosures are clear enough to be distinguished from disclosures about other risks and uncertainties and the phrases "substantial doubt" and "significant doubt" are both sufficiently clear.

Group members discussed whether the removal of the word "may" is a trivial difference. Group members expressed concern over the fact that PCAOB AU 341 prohibits the use of conditional language, noting that this requirement could result in a discontinuity between the auditor's report and management's disclosures in the financial statements prepared in accordance with IFRSs.

Some Group members noted that, from a preparers' perspective, the conditional language may convey a different meaning, regardless of whether the intent behind the standards is the same. If different language is used in the auditor's report and the financial statement disclosure, some Group members expressed concern that a user could misinterpret that this difference indicates that the auditor is expressing a different view than management.

Some Group members noted that, in practice, the threshold does not differ with respect to the degree of material uncertainties that would trigger going concern disclosures. Also, Group members highlighted that the doubt is still in the context of a material uncertainty.

Group members noted that the auditors do not have any latitude and must comply with the PCAOB standards. Given that an Emphasis of Matter paragraph in an auditor's report highlights the disclosures made in the financial statements, ideally, the financial statement disclosures would also refer to "substantial doubt" rather than "significant doubt" and remove the conditional language of "may".

Second Category – When PCAOB Standards Are not Referred to in the Auditor's Report
Group members observed that the SEC's "Financial Reporting Manual" requires the use of the phrase "substantial doubt" only when PCAOB standards are referred to in the auditor's report. As a result, the phrase "significant doubt" could be used in both the auditor's report and financial statements disclosures for entities in this category.

However, Group members observed that the SEC's Manual indicates that conditional language in the auditor's report is not appropriate. This guidance does not make reference to the financial reporting framework or the professional standards used to perform the audit. As a result, these entities may question whether the SEC's Manual prohibits the use of conditional language (for example, the use of the word "may"), given they are permitted to file an auditor's report in accordance with CASs and financial statements prepared in accordance with IFRSs.

> *View A – Conditional language is not permitted*
> The SEC's Manual prohibits the use of conditional language, regardless of the financial reporting framework or the professional standards used to perform the audit.

View B – Conditional language is permitted
The SEC permits the issuer to file an auditor's report, without reference to PCAOB standards and in accordance with CASs, which explicitly permit conditional language in the auditor's report.

Group members observed that View A is the more practical approach because including the conditional language in the auditor's report may be challenged by the SEC and result in refiling the auditor's report without this language. Group members explained that this outcome is undesirable and that View B is not worth the risk.

Group members observed that the potential discontinuity between the auditor's report and the financial statement disclosure is not ideal. The Group noted that since the auditor's report includes an Emphasis of Matter paragraph that draws attention to material uncertainties about the entity's ability to continue as going concern, ideally, the financial statement disclosures would also remove the conditional language. Also, the SEC may challenge the use of conditional language in the financial statement disclosure.

The Group's Chair noted that the purpose of the discussion was to raise awareness of the interaction between the regulators' rules, auditing literature and accounting standards. Group members agreed that this specific issue should not be referred to the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee because the most problematic aspect of this issue is the SEC and PCAOB rules.

However, Group members observed that other broader concerns exist regarding the clarity of the going concern disclosure requirements in IAS 1. Several Group members thought these requirements could be improved and supported discussing these disclosures at a future meeting.

News from the Regulators

Group members from two of the provincial securities regulators provided an update on matters to consider when preparing financial statements under IFRSs.

Lara Gaede, Chief Accountant of the Alberta Securities Commission, noted that the Canadian Securities Administrators' CSA Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures and Additional GAAP Measures," was revised in February 2012 to provide further guidance on disclosure of additional GAAP measures presented under IFRSs. Ms. Gaede noted that the Staff Notice was revised for a number of reasons, including that some issuers were confused by what was meant by the term "additional GAAP measures" and how these measures differ from non-GAAP measures. Ms. Gaede explained that a non-GAAP financial measure is not presented in financial statements, whereas an additional GAAP measure is presented in financial statements. Ms. Gaede provided additional details regarding the Staff Notice, including an outline of six practices to follow when including additional GAAP measures in financial statements.

Ms. Gaede provided some examples of additional GAAP measures that cause concern and summarized the staff's expectations about the use of these measures.

Cameron McInnis, Chief Accountant of the Ontario Securities Commission, noted that the OSC Staff Notice 52-720, "Office of the Chief Accountant Financial Reporting Bulletin," was issued in February 2012. Mr. McInnis noted that the bulletin covers a series of topics of interest, including business combinations and impairment. Mr. McInnis provided some comments about common control business combination transactions. Also, he provided observations regarding disclosures about significant judgments and estimation uncertainty, and expressed the staff's expectations in this area. Mr. McInnis noted that the Staff Notice includes an example to illustrate to issuers how these disclosures could be improved.

Group members asked several questions, including whether the definition of a predecessor business in the prospectus rules is inconsistent with IFRSs.

IFRS 3 and IFRS 13: Measuring the Fair Value of Debt Assumed in a Business Combination

IFRS 13 *Fair Value Measurement* defines fair value and sets out a single IFRS framework for measuring fair value that is applicable when another IFRS requires or permits fair value measurements with few exceptions. There are no exceptions for applying IFRS 13 to business combinations.

Typically, when an entity with listed debt is acquired, the price of the debt may change to reflect the market's expectations regarding changes to non-performance risk that may result from the pending acquisition (for example, the acquirer's credit standing or synergistic benefits that may be realized by the acquiree). The issue considered by the Group was whether acquired debt that is publicly listed should be measured at the acquisition date using the quoted price in an active market with or without an adjustment for such changes.

The Group's Discussion

Group members noted that IFRS 13 provides guidance on how to measure an item at fair value and not what to measure at fair value. Other IFRSs provide guidance on what should be measured at fair value, including determining the unit of account. In this case, IFRS 3 *Business Combinations* requires debt assumed in a business combination to be measured at fair value.

Group members observed that IFRS 13 emphasizes the use of an available level 1 input. Group members noted that the exceptions to using an available level 1 input, provided in paragraphs 39 and 79 of IFRS 13, apply only in limited circumstances.

Group members acknowledged that exceptions can give rise to confusion about whether an exception applies to a particular fact pattern. Group members explained that the best approach is

to presume that the level 1 input will be used and expect that it is unlikely that a specific fact pattern will fit into those limited circumstances in which an exception applies.

The Group agreed that this issue should not be brought to the attention of the IFRS Interpretations Committee because diversity is not expected to emerge in practice. Group members noted several other potential future agenda topics relating to IFRS 13.

IFRS 3 and IAS 12: Uncertain Tax Positions Acquired in a Business Combination

Decisions taken by an entity in measuring its income tax assets and liabilities for financial statement purposes when the tax law is unclear are generally referred to as uncertain income tax positions. An entity that acquires an uncertain tax position in a business combination needs to recognize and measure that position at the date of acquisition.

IFRS 3 *Business Combinations* provides limited exceptions to its recognition and measurement principles. Paragraphs 24 and 25 of IFRS 3 provide an exception relating to income taxes stating:

> "The acquirer shall recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with IAS 12 *Income Taxes*.
>
> The acquirer shall account for the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with IAS 12."

The issue considered by the Group was whether an uncertain income tax position that is acquired through a business combination is subject to the recognition and measurement exception in IFRS 3 relating to income taxes. Specifically, does the scope exception apply narrowly to the specified items only, or broadly to all items within the scope of IAS 12?

Fact Pattern:
- Entity A acquires Entity B in a business combination.
- Entity B has an uncertain income tax position at the acquisition date that could result in an additional current tax liability. However, the likelihood that an outflow of resources will be required is not considered to be probable at the acquisition date.

At the acquisition date, should Entity A recognize and measure the uncertain tax position in accordance with the general recognition and measurement principles in IFRS 3 (i.e., at fair value) (*View A*) or in accordance with IAS 12 by virtue of applying the exception in paragraphs 24 and 25 of IFRS 3 (*View B*)?

View A – The uncertain tax position is subject to the general recognition and measurement provisions in IFRS 3 (i.e., fair value)

Proponents of this view argue that the scope exception in paragraphs 24 and 25 of IFRS 3 is limited to the specified items (i.e., deferred income tax assets or liabilities and potential tax effects of temporary differences and carry forwards of an acquiree) as opposed to a broader scope exception to all items subject to IAS 12. Proponents of this view argue that uncertain tax positions do not fall within this scope exception because they generally relate to current income taxes.

Further, paragraphs 22 and 23 of IFRS 3 require a lower threshold for recognition of contingent non-tax liabilities assumed in a business combination in that they are recognized at fair value even if not probable. Paragraph 56 of IFRS 3 addresses subsequent measurement considerations and requires that the contingent liability be measured at the higher of the amount that would be recognized under IAS 37 and the amount recognized in the business combination, thereby avoiding any potential "day one" remeasurement issues. Given the parallels of such items with uncertain tax positions, proponents of this view argue that it seems reasonable to adopt a comparable approach.

View B – The uncertain tax position is subject to the IAS 12 recognition and measurement exception in IFRS 3

Proponents of this view argue that uncertain tax positions are excluded from the scope of IFRS 3. Paragraph IN9 in the introduction to IFRS 3 states:

> "Some assets and liabilities are required to be recognized or measured in accordance with other IFRSs, rather than at fair value. The assets and liabilities affected are those falling within the scope of IAS 12 *Income Taxes* …"

Proponents of this view argue that the fact that paragraphs 24 and 25 of IFRS 3 do not specifically refer to uncertain tax positions should not result in a limitation on the application of the exception. The introduction to the standard clearly states that the IASB intended the exception to apply to all assets and liabilities within the scope of IAS 12. Given IAS 12 does not contain explicit guidance relating to uncertain tax positions, the fact that paragraphs 24 and 25 do not explicitly refer to uncertain tax position should not be interpreted to exclude them. Also, although uncertain tax positions are more commonly associated with current income taxes, they may relate to deferred taxes.

Paragraph BC295 in the Basis for Conclusions to IFRS 3 provides some discussion about the particular problems uncertain tax positions present, albeit ultimately noting that: "the IASB decided not to modify IAS 12 as part of this project to address specifically the accounting for changes in acquired income tax uncertainties in a business combination." If uncertain tax positions are measured at fair value under IFRS 3, a day one entry may result (i.e., recognition of any difference between the IFRS 3 fair value and the IAS 12 measurement basis) because IAS 12 will be applicable after the combination.

Accordingly, proponents of this view argue that, from a practical perspective, uncertain tax positions should be recognized and measured in accordance with IAS 12 at the acquisition date and thereafter.

The Group's Discussion
While some Group members supported each view, other Group members supported both views, arguing that an accounting policy choice exists. Group members discussed their reasoning and expressed concern with the diversity in views. Some Group members noted that this issue is likely much more complex and may relate to broader issues surrounding IAS 12.

However, given the diversity in views, the Group recommended that this issue should be brought to the attention of the IFRS Interpretations Committee by the AcSB through the most appropriate vehicle. The Group directed the AcSB staff to determine the best path to move this issue forward, suggesting the IASB's IFRS 3 post-implementation review or a request for an annual improvement as possibilities.

IAS 12: Part VI.I Tax on Dividends Paid to Preferred Shareholders

Part VI.I Tax is a form of advanced corporation tax imposed on the payer of dividends on certain shares, usually specific types of preferred shares. Generally, Part VI.I Tax is computed based on the amount of dividend paid and is payable by a corporation regardless of its amount of taxable income. However, the corporation is eligible for a deduction (equal to a specified multiple of the dividend) in computing its taxable income. In effect, this deduction is intended to offset the Part VI.I Tax payable against corporation income tax payable for the year, or for another year through the non-capital loss carry-back and carry-forward mechanism. However, a full offset is generally not achieved. Additionally, there may be no offset to the Part VI.I Tax in the case of an entity that determines it is not probable that the deduction will be utilized.

Fact Pattern:
An entity has issued preferred shares that:

- are subject to Part VI.I Tax; and
- meet the requirements in IAS 32 *Financial Instruments: Presentation* for equity classification.

The issue considered by the Group was whether Part VI.I Tax, along with any related recoveries, should be recorded in profit and loss (*View A*) or in equity (*View B*).

View A – Part VI.I Tax should be recorded in profit or loss
Proponents of this view argue that paragraphs 52A and 52B of IAS 12 *Income Taxes* apply because Part VI.I Tax is, in form and substance, a tax charged when dividends are paid to preferred shareholders of an entity.

Paragraphs 52A and 52B address situations in which "income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity" or in which "income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity."

Proponents of this view argue that paragraph 52B requires that Part VI.I Tax, along with the related deduction recorded in the same or a different period, be recorded in profit or loss, except in the unusual circumstance in which the distribution itself arose from a transaction recorded outside of profit or loss.

View B – Part VI.I Tax should be recorded in equity

Proponents of this view argue that paragraph 61A of IAS 12 applies. This paragraph requires an entity to trace the tax to the item to which it relates and supports reporting Part VI.I Tax in equity, along with any related Part VI.I Tax deduction recognized in the same or a different period.

Proponents of this view argue that paragraphs 52A and 52B of IAS 12 do not apply because those paragraphs are meant to capture taxes that are in substance an adjustment to an entity's income taxes and were not designed to include other types of taxes. Part VI.I Tax is independent of an entity's income tax calculation and would be payable even when an entity had never owed any income tax.

Alternatively, proponents of this view argue that Part VI.I Tax is not within the scope of IAS 12 because it is computed with reference to a dividend rather than a profit figure and is independent of an entity's income taxes. As a result, proponents of this view look to the guidance in paragraph 35 of IAS 32 *Financial Instruments: Presentation*, which requires transaction costs associated with equity transactions to be recognized in equity.

The Group's Discussion

Group members noted that pre-changeover Canadian accounting standards provided clear guidance on this matter but contained tax allocation guidance that is not the same as the guidance in IAS 12. Group members noted that no guidance equivalent to paragraphs 52A and 52B existed in pre-changeover Canadian accounting standards. As a result, only the equivalent to paragraph 61A needed to be considered under pre-changeover Canadian accounting standards.

Some Group members observed that paragraph 61A in IAS 12 pre-existed paragraphs 52A and 52B. Also, since paragraphs 52A and 52B were put in place, there has been a regular stream of discussions over the interaction between those two paragraphs and paragraph 61A. Some Group members suggested that paragraphs 52A and 52B apply to a narrow range of circumstances and, in contrast, paragraph 61A provides the general principle that an entity should report the tax in the same place in the financial statements as the item being taxed.

Some Group members supported View A, some supported View B and others accepted both views. Group members questioned whether the issue would meet the IFRS Interpretations Committee's criteria because it may be unique to the Canadian tax system. However, Group members observed that the issue could be widespread if other jurisdictions have a similar tax. As a result, the Group directed the AcSB staff to perform outreach to determine whether any other jurisdictions have a similar fact pattern.

IAS 16: Useful Life of Leasehold Improvements

IAS 16 *Property, Plant and Equipment* requires the depreciable amount of an asset to be allocated on a systematic basis over its useful life.

In determining a "lease term", IAS 17 *Leases* requires that a renewal option not be reflected unless it is "reasonably certain" that the option will be exercised. The issue considered by the Group was whether the lease term represents the useful life for leasehold improvements under IAS 16 when the lessee is not reasonably certain it will exercise an option to extend a lease.

Fact Pattern:

- A lessee enters into an operating lease for an office property that has:
  - an initial term of five years; and
  - an option for the lessee to extend the lease for a further five years at market rates.
- Upon commencement of the lease term, the lessee:
  - spends $2 million on an immovable leasehold improvement specific to the property that has an economic life of seven years; and
  - expects to exercise the extension option, but is not reasonably certain it will do so.

Should the useful life of the leasehold improvements be the shorter of the lease term and the asset's economic life (i.e., five years) (*View A*) or the asset's expected economic life (i.e., seven years) (*View B*)?

Proponents of View A refer to paragraph 56(d) of IAS 16 and the definition of lease term under IAS 17, arguing that a consistent approach to amortization should be used. Proponents of View B give more weight to paragraphs 56(a) and 57 of IAS 16, focussing on the expected use of the asset.

The Group's Discussion

Group members noted that it is difficult to understand how the lessee in this fact pattern can expect to exercise the extension option but not be reasonably certain it will do so. As a result, Group members questioned how often the fact pattern would occur in practice.

Several Group members observed that there is a relatively unclear distinction between expected and reasonably certain. They expressed the view that expected and reasonably certain do not represent different thresholds.

Group members also noted that, from a practical perspective, management would align the lease term with the economic life of significant leasehold improvements and, in most cases, a financial statement preparer would arrive at compatible approaches.

Group members made several other observations, including that there may be an economic incentive to renew the lease and that only IAS 16 applies to the amortization of the asset (i.e., IAS 17 does not apply).

The Group agreed that this issue should not be brought to the attention of the IFRS Interpretations Committee because the issue is not expected to arise in practice frequently.

IAS 17 and IAS 40: Initial Direct Leasing Costs for Investment Properties Measured Using the Fair Value Model

Paragraph 20 of IAS 40 *Investment Property* requires an investment property to be measured initially at its cost, including transaction costs. Subsequently, paragraph 30 of IAS 40 permits an entity to choose either the fair value model or the cost model.

An entity that owns an investment property may incur initial direct costs that are incremental and directly attributable to negotiating and arranging a lease. Paragraph 52 in IAS 17 *Leases* states that "initial direct costs incurred by lessors in negotiating and arranging the lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income."

The issue considered by the Group was whether initial direct costs of setting up a lease relating to an investment property measured using the fair value model should be amortized separately over the lease term (*View A*) or considered part of the investment property, which is subsequently measured at fair value (*View B*).

Fact Pattern:

- At January 1, 20X1, Entity A:
  - acquires a vacant property for a total consideration of $200 million;
  - incurs initial direct leasing costs of $5 million in connection with negotiating a five-year lease contract with a lessee; and
  - adds these costs to the carrying amount of the investment property.
- The building has an estimated useful life of 40 years.
- The fair value of the investment property at December 31, 20X1 is $210 million.
- There are no changes due to other acquisitions, additions, disposals or transfers.

Should the initial direct leasing costs be amortized separately over the lease term (*View A*) or considered to be part of the investment property, which is subsequently measured at fair value (*View B*)?

At the end of the year, Entity A would record either:

- a fair value gain of $6 million and amortization expense of $1 million under View A; or
- a fair value gain of $5 million and no amortization expense under View B.

The Group's Discussion

Some Group members noted that the issue only relates to geography within profit and loss, given that both views have the same net effect on profit and loss. Also, the effect on the calculation of Funds from Operations, a figure commonly used by Real Estate Investment Trusts to define cash flow from their operations, is not affected by either approach. Both the amortization of initial direct leasing costs and any fair value remeasurement gains or losses associated with the investment properties are adjusted for in calculating Funds from Operations.

Some Group members observed that Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) may be affected differently by the two views and this difference may be significant if both views are applied by entities outside the real estate industry. Also, some Group members noted that the more important consideration is that the valuation is completed appropriately to avoid double counting of the direct leasing costs.

Some Group members expressed support for View B and other Group members expressed support for both views. Some Group members argued that amortization is a cost allocation method inconsistent with the fair value model. However, other Group members noted that most in the real estate industry accept both views under IFRSs and an entity should establish an accounting policy for the treatment of direct leasing costs and apply it consistently.

The Group agreed that, although differing views exist in practice, the issue is not perceived to be significant. As a result, they agreed that this issue should not be brought to the attention of the IFRS Interpretations Committee at this time. If the diversity becomes a significant concern in the future, the Group can reconsider this issue.

IAS 33: Diluted Earnings per Share when Debt Can Be Settled in Cash or Shares

Certain debt instruments contain a contractual provision that allows the issuer to settle the instrument, at maturity, in either cash or shares of the issuer. Such instruments may include convertible debt.

The issue considered by the Group was how an entity that has issued such an instrument calculates diluted earnings per share in accordance with IAS 33 *Earnings per Share*.

The Group's Discussion
Group members observed that the issue arises in practice because the requirements in IAS 33 differ from Section 3500, *Earnings per Share*, in pre-changeover Canadian accounting standards in Part V of the CICA Handbook – Accounting.

Group members noted that paragraph 58 of IAS 33 states:

> "When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive."

Similar to IAS 33, pre-changeover Canadian accounting standards included a presumption in paragraph 3500.46(a). However, unlike IAS 33, paragraph 3500.46(c) permitted this presumption to be overcome on the basis of past experience or a stated policy. As a result, pre-changeover Canadian accounting standards differ from IFRSs because there is no such ability to overcome this presumption in IAS 33.

Further, Group members observed that paragraph 59 of IAS 33 specifies that the presumption in paragraph 58 in IAS 33 is independent of, and may differ from, the classification of the instrument as debt or equity in accordance with IAS 32 *Financial Instruments: Presentation*. Also, Group members noted that paragraph 60 of IAS 33 requires that, when the holder of an instrument has an option relating to the manner of settlement, then the more dilutive of cash and share settlement is included in the diluted earnings per share calculation. This guidance is consistent with paragraph 3500.47.

Group members observed that, when an instrument has both holder and issuer options attached to it, the calculation of diluted earnings per share becomes more complex. Group members noted that Example 8 in the implementation guidance in IAS 33 may give rise to a number of questions when applying paragraphs 58-61 of IAS 33 in this more complex scenario. As a result, the Group agreed that this more complex scenario should be considered for discussion at a future meeting.

UPDATES ON PREVIOUS ITEMS DISCUSSED BY THE GROUP

IAS 8: Disclosure Requirements for Retrospective Application of New Standards

At the January 2012 meeting, Group members discussed what information should be disclosed to meet the requirements in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, specifically in the context of the new standards that have an effective date of January 1, 2013 (for example, IFRS 10 *Consolidated Financial Statements*). At that time, Group members directed the AcSB staff to obtain additional information about whether

transitional relief from this paragraph has been considered by the IASB in developing IFRS 10 or the IASB's Exposure Draft, "Transition Guidance (Proposed Amendments to IFRS 10)." As directed by the Group, the AcSB staff contacted the IASB staff to obtain information about their work to evaluate IAS 8 and communicated the Group's views about this issue. In March 2012, the IASB staff presented an agenda paper about the IAS 8 requirements to the IASB. The IASB has requested that additional research on the topic be performed. In addition, the AcSB staff noted that the comment letters and deliberations regarding the IASB's Exposure Draft, "Transition Guidance (Proposed Amendments to IFRS 10)" may provide a partial resolution of this issue.

UPDATES ON THE IFRS INTERPRETATIONS COMMITTEE'S OUTREACH REQUESTS AND OTHER ACTIVITIES

Outreach Requests from the IFRS Interpretations Committee Staff

The responsibilities of the Group include providing information on requests from the IASB, and national standard setters or similar bodies regarding eligibility of issues for possible action by the IFRS Interpretations Committee.

The AcSB staff generally circulates these outreach requests to Group members and asks for information about the prevalence of the issue in Canada and the level of diversity in practice. That input forms the basis for the AcSB staff response to the IFRS Interpretations Committee staff on each issue.

Since the Group's January 2012 meeting, the AcSB staff responded to four outreach requests and the IFRS Interpretations Committee continued its work on most of these issues at its March 2012 meeting:

- IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes* — Presentation of payments of non-income taxes;
- IAS 12 *Income Taxes* — Accounting for market value uplifts introduced by a new tax regime;
- IAS 16 *Property Plant and Equipment,* IAS 38 *Intangible Assets* and IAS 17 *Leases* — Purchase of right to use land; and
- IFRS 3 *Business Combinations* — Arrangements in which payments are forfeited upon Termination.

For further details, refer to the March 2012 IFRIC Update.

Changes to the IFRS Interpretations Committee's Operations and Due Process Handbook

The AcSB staff reported that the IFRS Foundation staff presented the final report on the Trustees' Review of the Efficiency and Effectiveness of the IFRS Interpretations Committee for

the Trustees' approval.[1] The AcSB staff provided an update on the continuing positive improvements to the Committee's operations and approach. The Committee is taking a broader view of the tools available to address issues concerning the application of IFRSs and is demonstrating a much greater willingness to act.

The AcSB staff reported that a revised IFRS Foundation Due Process Handbook was expected to be issued for comment at the end of April or early May 2012.[2] The IFRS Foundation is proposing to combine the two existing due process handbooks into one. As part of these revisions, the Committee's agenda criteria will be revised to reflect the Committee's new approach and expanded toolkit.

The AcSB staff noted that the IFRS Discussion Group will continue to assess issues against the Committee's current criteria, but should take into account the Committee's new approach when considering whether to recommend that the AcSB submit a request to the Committee.

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[1] The final report was published on May 2, 2012 and is available on the IASB's website at http://www.ifrs.org/Alerts/PressRelease/IC+review+May+2012.htm.

[2] The consultation document was issued on May 8, 2012 and is available on the IASB's website at http://www.ifrs.org/Alerts/PressRelease/DueProcessHandbook.htm.