

IFRS Discussion Group

Report on the Public Meeting

September 11, 2014

The IFRS Discussion Group is a discussion forum only. The Group's purpose is to assist the Accounting Standards Board (AcSB) regarding the 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 acceptable or unacceptable application of IFRSs. Only the International Accounting Standards Board (IASB) or IFRS Interpretations Committee can make such a determination.

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

Items Presented and Discussed at the September 11, 2014 Meeting

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ITEMS PRESENTED AND DISCUSSED AT THE SEPTEMBER MEETING

IFRS 3, IAS 16 and IAS 37: Contingent Consideration in an Asset Purchase

IFRS 3 *Business Combinations* is clear that contingent consideration payable in a business combination should be recognized at fair value as part of the purchase price. However, IFRSs do not contain explicit guidance on the accounting for contingent consideration if the assets acquired do not constitute a business as defined in IFRS 3.

Fact Pattern:

Entity A acquires one or more assets that do not constitute a business. The assets are property, plant and equipment that will be accounted for in accordance with IAS 16 *Property, Plant and Equipment*. Entity A pays the seller cash consideration at the time of the purchase and agrees to pay additional amounts in one year's time based on a combination of factors, including whether Entity A is able to achieve production milestones with the assets and how profitable the operations are.

Issue: How should Entity A account for the contingent consideration payable?

View A – Contingent consideration payable should be measured at fair value and recorded as part of the cost of the purchase.

IAS 16 requires items to be initially recognized at cost. Cost is the cash equivalent price at the time of purchase, which can be argued to include the contractual arrangement to pay contingent consideration. As discussed in IFRS 3, contingent consideration in a business combination will often meet the definition of a financial instrument. Contingent consideration that is contractually agreed upon in an asset purchase is no different. It is appropriate to record contingent consideration payable at fair value at the time of the acquisition. There may be considerable judgment in determining the fair value, which would need to factor in the probability that contingent consideration will in fact be paid. However, this uncertainty does not negate the fact that a financial instrument exists and should be recorded as part of the cost of the asset(s) purchased.

View B – Contingent consideration payable should be measured and recorded at some other point (for example, when the conditions associated with the contingency are met).

In 2013, the IASB considered an IFRS Interpretations Committee paper titled "[Variable Payments for the Separate Acquisition of Property, Plant and Equipment and Intangible Assets.](#)" Two alternatives were put forward in that paper. One alternative was consistent with View A above. The other alternative held that contingent consideration payments that are dependent on actions of the buyer do not meet the definition of a financial liability until those actions are performed. For example, in the fact pattern at hand, if Entity A

chooses not to meet the production milestones, the contingent consideration will not be paid. Therefore, Entity A controls, and can avoid, the obligation to pay consideration.

This view is consistent with the principles of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In accordance with IAS 37, only those obligations arising from past events that exist independently of the entity's future actions are recognized as provisions. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation.

View C – IFRS guidance is unclear and therefore there is an accounting policy choice.

There is little IFRS guidance in this area. The IFRS Interpretations Committee was unable to reach a consensus on this topic. In July 2013, the IASB observed that variable payments were being considered in both the Leases and Conceptual Framework projects, and concluded that the issue should be reconsidered after the redeliberation of the proposals in its May 2013 Exposure Draft, "Leases."

Subsequent accounting for changes in contingent consideration

A second issue was addressed to determine what the subsequent accounting should be for changes in contingent consideration. Various alternatives were presented in the fact pattern depending on the views in the initial question.

The Group's Discussion

Group members expressed diverse views on this issue.

Some Group members noted that View A could be supported by guidance in IAS 39 *Financial Instruments* regarding financial liabilities that contain variability in payments. Other Group members observed that it is difficult to ignore the contingent consideration in an asset acquisition if the facts and circumstances closely resemble a business combination. In this case, guidance in IFRS 3 is referred to by analogy. Some members questioned whether it would be practical for a buyer to avoid the production milestones (i.e., if there would be significant penalties) and commented that the seller would have factored in the probability of paying the contingent consideration when determining the purchase price.

Some Group members noted that when IFRS 3 was developed, it was designed to address the accounting for a contingent liability assumed in a business combination at the acquisition date. This could support View B. Contrary to IAS 37, IFRS 3 supports the recognition of a contingent liability even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. However, this fact pattern is outside the scope of IFRS 3 because the assets acquired do not constitute a business. Therefore, the recognition and measurement of the contingent consideration should be in accordance with IAS 37.

Other Group members observed that View C could be supported as well because the IFRS Interpretations Committee's discussion on this topic has led stakeholders to think there is a policy choice relating to how to account for variable payments. Economic compulsion is also an important factor in determining whether the consideration should be accounted for as a financial liability or a contingency.

Many members thought the accounting should be dependent on the specific fact pattern and that neither view could be discounted outright.

The Group recommended that the AcSB monitor the IASB's consideration of this issue as part of its Leases and Conceptual Framework projects to assess whether further action is needed.

IFRS 3, IFRS 15, IAS 18 and IAS 37: Contingent Consideration in an Asset Sale

IFRS 3 *Business Combinations* is clear that contingent consideration payable in a business combination should be recognized at fair value as part of the purchase price. However, IFRSs do not contain explicit guidance on the accounting for contingent consideration if the assets acquired do not constitute a business as defined in IFRS 3, nor does that standard address contingent consideration from the seller's standpoint.

Fact Pattern:

Entity A sells one or more assets that do not constitute a business to Entity B. The assets are property, plant and equipment that will be accounted for in accordance with IAS 16 *Property, Plant and Equipment*. Entity B pays Entity A cash consideration at the time of the purchase and agrees to pay additional amounts in one year's time based on a combination of factors, including whether Entity B is able to achieve production milestones with the assets and how profitable the operations are.

Issue: How should Entity A account for the contingent consideration receivable?

View A – Contingent consideration receivable should be measured at fair value and recorded as part of the proceeds on the sale of the asset(s).

IAS 18 *Revenue* requires revenue to be recorded at the fair value of the consideration received or receivable. The contractual agreement with the buyer to pay additional amounts is part of the consideration receivable.

As discussed in IFRS 3, contingent consideration in a business combination will often meet the definition of a financial instrument. Contingent consideration that is contractually agreed upon in an asset sale is no different. It is appropriate to record contingent consideration receivable at fair value at the time of the sale. There may be considerable judgment in determining the fair value, which would need to factor in the probability that contingent consideration will in fact be paid. However, this uncertainty does not negate the fact that a financial instrument exists and should be recorded as part of the proceeds on the sale of the asset(s).

View B – Contingent consideration receivable should be measured and recorded at some other point (for example, when the conditions associated with the contingency are met).

Consistent with the principles of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, it would seem that consideration receivable is similar to a contingent asset, which should not be recognized in accordance with paragraph 31 of IAS 37.

In addition, in 2013, the IASB considered an IFRS Interpretations Committee paper titled "[Variable Payments for the Separate Acquisition of Property, Plant and Equipment and Intangible Assets](#)." Two alternatives were put forward in that paper. One alternative was consistent with View A above. The other alternative held that contingent consideration payments that are dependent on actions of the buyer do not meet the definition of a financial liability until those actions are performed. Proponents of View B may

analogize to the latter alternative and conclude that if the buyer does not have a liability, then the seller does not have an asset.

View C – IFRS guidance is unclear and, therefore, there is an accounting policy choice.

There is little guidance in this area. The IFRS Interpretations Committee was unable to reach a consensus on a related topic of whether a buyer has a liability in a situation where variable payments exist for the acquisition of property, plant and equipment or intangible assets outside of a business combination. In July 2013, the IASB observed that variable payments were being considered in both the Leases and Conceptual Framework projects, and concluded that the issue should be reconsidered after the redeliberation of the proposals in its May 2013 Exposure Draft, “Leases.”

The concept of contingent consideration is contemplated in the new revenue standard, IFRS 15 *Revenue from Contracts with Customers*. In accordance with IFRS 15, the amount of revenue recognized should be based on the consideration expected to be received, including variable payments to the extent it is highly probable that a significant reversal in the amount recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. It is unclear if this measurement guidance is similar to the less explicit guidance in IAS 18 concerning consideration receivable.

The Group’s Discussion

Group members expressed diverse views on this issue.

Some Group members supported View B because, in their view, a contingent consideration receivable is a contingent asset, which is not recognized in the financial statements. One Group member pointed out that when it is virtually certain that an inflow of economic benefits will arise, the asset is no longer considered a contingent asset but rather an asset that is appropriate for recognition. However, this appears to conflict with guidance in IFRS 15, under which recognition occurs when it is “highly probable” that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Some Group members questioned the applicability of IFRS 15 given the standard deals with revenue from contracts with customers. It was also noted that IFRS 15 is not effective until on or after January 1, 2017, although earlier application is permitted.

Group members supporting View A noted that the transaction meets the definition of an asset because the contingent consideration is a financial instrument given it is contractually agreed upon. However, measurement uncertainty exists if there are concerns that the seller will not receive the amount. Principles in IAS 18 should be applied when considering the probability that revenue will be received and whether it can be measured reliably. Some group members noted that if measurement uncertainty resulted in a value of zero, View A and View B would have the same outcome. Guidance in IAS 16 on derecognition of an asset may also be relevant. Circumstances in which risks and rewards have been transferred and there is a contractual right to receive cash flow in the future could lead to the recognition of a gain or loss on the sale of the asset.

One Group member supported View C because when IFRSs are unclear or there is conflicting guidance, entities must decide on an accounting policy to apply consistently. Some Group members suggested it may be a matter of analyzing facts and circumstances more carefully, rather than making an accounting policy

choice. Entities entering into transactions for which there is no explicit IFRS guidance should disclose the method of accounting applied in their notes to the financial statements.

The Group recommended that the AcSB monitor the activities of the [IASB/FASB Joint Transition Resource Group for Revenue Recognition](#) to determine if there is an opportunity for this type of issue to be added to its agenda. It was also suggested that a useful topic for future discussion by the Group might be whether there are common types of revenue transactions in Canada where it is unclear if they are within the scope of IFRS 15.

IFRS 1: Carve-out Financial Statements

IFRSs do not include specific guidance on the preparation of carve-out financial statements. However, *The Conceptual Framework for Financial Reporting* and some standards include information that may be relevant to the preparation of such financial statements.

Fact Pattern:

Entity ABC Corp. plans to spin off a line of business that is not a legal sub-group and needs to prepare financial statements for this line of business. ABC Corp's date of transition to IFRSs is January 1, 2010 and the line of business was part of ABC Corp's operations at that date. The carve-out financial statements of the line of business are being prepared for the years ended December 2014 and 2013.

For purposes of this discussion, carve-out financial statements are the financial statements of one or more components of a larger entity that are not part of a legal sub-group. This discussion assumes that the financial statements will comply with IFRSs and, therefore, will include a statement of compliance with IFRSs as issued by the IASB. The discussion does not address any regulatory considerations required to be taken into account if the financial statements were included in a regulatory filing.

Issue: Can IFRS 1 First-time Adoption of International Financial Reporting Standards be applied to the carve-out financial statements of the line of business when ABC Corp was already in full compliance with IFRSs?

View A – Yes, IFRS 1 may be applied.

IFRS 1 may be applied when general purpose financial statements are prepared for a new reporting entity. In accordance with paragraph 3(d) of IFRS 1, since the line of business (i.e., the new reporting entity) did not present financial statements for previous periods separate from those of ABC Corp, the carve-out financial statements would be considered its first IFRS financial statements.

This view is also supported by the exemption provided in paragraph D16 of IFRS 1, relating to when a subsidiary transitions to IFRSs later than its parent. The exemption reinforces the principle that IFRS 1 is applicable, even though the subsidiary was included in the parent's transition to IFRSs as part of the consolidated financial statements. Although the line of business in the fact pattern is not a legal subsidiary of ABC Corp, it is controlled by ABC Corp. until such time as it is sold or spun off to third parties.

View B – No, IFRS 1 may not be applied.

It may be argued that carve-out financial statements are not being prepared for the first time because the reporter was extracted from an entity that has already transitioned to IFRSs. Therefore, the carve-out

financial statements are not those of a first-time adopter. Further, absent any IFRS definition of “entity”, it may be argued that a component of an entity that is not a legal sub-group isn’t an entity as envisaged in IFRS 1.¹ The exemption in paragraph D16 isn’t relevant as it relates to subsidiaries, associates and joint ventures that would themselves be entities.

View C – The application of IFRS 1 to carve-out financial statements depends on the particular facts and circumstances.

In cases such as the one at hand, where the component for which carve-out financial statements are being prepared isn’t a legal sub-group of the larger entity, the application of IFRS 1 depends on whether the facts and circumstances support that a new reporting entity has been created. Factors to be considered include whether the carve-out financial statements have necessitated such adjustments as corporate cost allocations, the allocation of corporate assets and the creation of intercompany accounts.

The Group’s Discussion

The majority of Group members supported View A, that IFRS 1 may be applied. Moreover, some Group members commented that IFRS 1 must be applied if the new reporting entity has not presented IFRS financial statements in previous periods. Some Group members noted that even if IFRS 1 is applied, the use of the parent company’s carrying amounts would be permitted in accordance with paragraph D16 of IFRS 1. One Group member cautioned that some jurisdictions specifically prohibit the application of IFRS 1 in circumstances such as the one at hand.

Other Group members expressed sympathy for View B, noting that IFRS 1 is meant to assist entities in transitioning from their previous accounting framework to IFRSs. If the historical information of the entity is already accounted for under IFRSs, the relevancy in applying IFRS 1 should be questioned. One Group member pointed out that, in looking forward to a time when all entities have been applying IFRSs for many years, applying IFRS 1 to carve-out financial statements produces rather strange results.

One member thought View C could be supported because the facts and circumstances should be analyzed to determine if a new reporting entity has been created.

If IFRS 1 is applied, most Group members expressed the view that all requirements of the standard should be applied, including, for example, the presentation of an opening statement of financial position. A possible exception is providing reconciliations to previous GAAP, which may not be applicable to carve-out financial statements that have no previous GAAP basis of reporting.

The Group’s discussion raises awareness about this item. No further action was recommended on this item.

¹ It should be noted that the IASB’s March 2010 Exposure Draft, “[Conceptual Framework for Financial Reporting – The Reporting Entity](#),” discusses the concept of a reporting entity and specifies the circumstances in which a portion of an entity could qualify as a reporting entity.

IAS 19 and IAS 21: Foreign Exchange Gains and Losses on Defined Benefit Pension Plan Obligations

IAS 19 *Employee Benefits* requires the remeasurement of net defined benefit obligations on a regular basis but does not contain explicit guidance on the treatment of gains and losses on the net defined benefit liability (asset) related to foreign currency translation.

Fact Pattern:

- A Canadian entity in the oil and gas industry has a defined benefit plan for its Canadian employees, payable in Canadian dollars.
- The plan assets comprise both debt and equity instruments as well as non-financial assets such as real estate. The debt instruments are denominated in both Canadian and US dollars. The equity instruments and real estate assets include both Canadian and US assets.
- The entity has determined that its functional currency is US dollars.

The above facts are considered in the context of both a funded and an unfunded plan.

Issue 1: Should foreign exchange gains and losses resulting from translation of the defined benefit obligation into the sponsor's functional currency be recognized in profit or loss or in other comprehensive income?

Issue 2: Should different considerations be applied to unfunded versus funded plans?

Scenario 1 – Unfunded arrangements.

View 1A – The foreign exchange gains and losses should be recorded in profit or loss.

Paragraph 28 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires exchange differences on translating monetary items to be recognized in profit or loss in the period in which they arise.²

Paragraph 16 of IAS 21 gives “pensions and other employee benefits to be paid in cash” as an example of a monetary item.

Exchange differences arise as a result of translating the monetary liability rather than from a change in a financial actuarial assumption used to determine the ultimate cost of providing post-employment benefits. Paragraph 83 of IAS 19 requires the discount rate used to determine the present value of the defined benefit obligation to be based on the discount rate of corporate or government bonds that are in the same currency as the post-employment benefit obligations. Paragraph 75 of IAS 19 requires that actuarial assumptions be mutually compatible. Therefore, IAS 19 requires that the currency in which the defined benefit payments are denominated (i.e., the payment currency) be used to calculate the present value of the defined benefit obligation.

If the present value of the defined benefit obligation is determined in the currency of the ultimate payment, foreign currency translation of the defined benefit obligation into the functional currency of the sponsor falls outside the scope of IAS 19 and is, instead, governed by IAS 21. In accordance with IAS 21, gains and

² An exception is provided for exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

losses resulting from translating the defined benefit obligation from the payment currency into the functional currency of the sponsor must be recorded in profit or loss, as the defined benefit obligation is classified as a monetary item.

View 1B – The foreign exchange gains and losses should be recorded in other comprehensive income.

Although IAS 19 does not specifically refer to exchange rates as a financial actuarial assumption, they are clearly a variable that, similar to actuarial assumptions, will determine the ultimate cost of providing the post-employment benefits. Therefore, like actuarial gains and losses, exchange differences arising on the translation of the defined benefit obligation into the sponsor's functional currency should be recorded in other comprehensive income.

This treatment is consistent with the view that the accounting for translation gains and losses similar to actuarial gains and losses should not have been impacted by the removal of policy choices that existed in the previous version of IAS 19. Previously, entities had a choice of recognizing actuarial gains and losses either immediately through profit or loss or other comprehensive income, or following an approach of deferred recognition through profit or loss (i.e., the corridor approach or another systematic method that results in faster recognition through profit or loss). No differentiation was made between foreign exchange gains and losses and actuarial gains and losses (as both are factors in the determination of the defined benefit obligation).

Using the corridor approach (or another systematic method) would effectively have deferred recognition of foreign exchange gains and losses through profit or loss, similar to actuarial gains and losses. As the revision of IAS 19 did not specifically change the treatment of foreign exchange, foreign exchange gains and losses should continue to be recorded on the same basis as actuarial gains and losses.

View 1C – A policy choice is available to record foreign exchange gains and losses in profit or loss, or in other comprehensive income.

Both Views 1A and 1B have merit. Thus, there is support for a policy choice.

The Group's Discussion

The majority of Group members supported the recognition of foreign exchange gains and losses in profit or loss (View 1A). However, some Group members expressed concerns as to whether this approach would provide the most useful information to users of financial statement, given that the majority of the change in the net defined benefit liability is recorded in other comprehensive income. Group members noted that the translation of the net defined benefit liability to the entity's functional currency falls within the scope of IAS 21, rather than IAS 19.

Group members thought that although there was clear guidance in this topic area, their discussion raises awareness about this item. The Group did not recommend any further action on this item.

Scenario 2 – Funded arrangements.

View 2A – Foreign exchange gains and losses on the net defined benefit liability or asset should be recorded in profit or loss.

Under IAS 19, it would seem appropriate to view the net defined benefit liability or asset as a single unit of account because of the way it is presented in the balance sheet and how net interest expense is calculated. Although a funded plan may contain assets that are non-monetary, proponents of this view interpret paragraph 16 of IAS 21 to mean that the net defined benefit liability or asset is considered a monetary item. Therefore, consistent with View 1A, foreign exchange gains and losses should be accounted for in accordance with paragraph 28 of IAS 21.

As a result, a two-step approach is required whereby the assets of the plan are first translated into the currency in which benefit payments are made. Such translation represents a remeasurement in accordance with IAS 19 and is included in other comprehensive income. The net defined benefit liability or asset is then translated into the sponsor's functional currency with any foreign currency gains and losses recognized in profit or loss.

View 2B – Foreign exchange gains and losses on the net defined benefit liability or asset should be recorded in other comprehensive income.

Proponents of this view think the same treatment should apply regardless of whether a plan is funded or unfunded. This means that the foreign exchange rate is an actuarial assumption in determining both the plan assets and the defined benefit obligations.

Some think that this treatment is better supported for a funded arrangement as there is less of a potential conflict with paragraph 16 of IAS 21. IAS 21 states that the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency and includes "pensions and other employee benefits to be paid in cash" as an example of a monetary item. However, it is less clear that a funded plan is a monetary item, particularly if a defined benefit plan contains plan assets that are non-monetary (for example, equity instruments and real estate investments). IAS 21 is not sufficiently clear as to whether:

- this net amount should be considered a single net monetary obligation to, or monetary receivable from, the plan;
- the sponsor's interest in the gross elements of this net amount (i.e., defined benefit obligation, monetary assets and non-monetary assets) should be assessed separately as to whether they are monetary or non-monetary; or
- the net amount in this case should be considered non-monetary.

Given this ambiguity, this view does not appear to contradict paragraph 16 of IAS 21.

View 2C – The foreign exchange gains and losses on the underlying components of the net defined benefit liability or asset should be recorded in profit or loss or in other comprehensive income according to the nature of the specific components.

Proponents of this view consider it appropriate to apply IAS 21 by "looking through" the net defined benefit liability or asset, and recording translation gains and losses on the underlying components based on the

monetary or non-monetary nature of the plan assets and the monetary nature of the defined benefit obligation.

In accordance with IAS 21, translation gains and losses on the monetary plan assets and monetary defined benefit obligation would be recognized through profit or loss. IAS 19 requires non-monetary plan assets to be measured at their fair value and, in accordance with paragraphs 23(c) and 30 of IAS 21, translation gains and losses are recognized in profit or loss only when the associated valuation gains and losses are recognized in profit or loss. However, IAS 19 results in such valuation gains and losses being recognized in part through profit or loss via net interest expense, and in part through other comprehensive income.

It is acknowledged that this approach creates a significant level of accounting complexity and could be very difficult to apply or explain to financial statement users.

View 2D – A policy choice is available to record exchange gains and losses in profit or loss, or in other comprehensive income.

Each of Views 2A, 2B and 2C have merit. Thus, there is support for a policy choice.

The Group's Discussion

The majority of Group members similarly supported the recognition of foreign exchange gains and losses in profit or loss (View 2A) for funded arrangements. Some members acknowledged that one could look through the net defined benefit liability or asset and separate it into its underlying components. To the extent there are plan assets that are non-monetary, some of the foreign exchange impact may be attributed to other comprehensive income or loss. This approach may be an alternative although it would be operationally expensive and complex to calculate. One Group member suggested that another factor to be taken into consideration in this scenario is the implications of an asset ceiling test.

Group members thought that although there was clear guidance in this topic area, their discussion raises awareness about this item. The Group did not recommend any further action on this item.

IAS 19: Refundable Tax Accounts in Retirement Compensation Arrangements

Under a retirement compensation arrangement (referred to as "RCA"), an employer makes contributions to a custodian. The funds are held in trust and invested with the proceeds ultimately to be distributed to the employee upon retirement. The contributions to the retirement compensation arrangement trust are subject to a refundable tax – for every dollar to be invested, a dollar must be remitted to the Canada Revenue Agency (CRA). The funds remitted to the CRA are held in deposit in a refundable tax account (referred to as "RTA") that is non-interest bearing. The funds are paid on the same basis as they are remitted – for every \$2 in benefit payments made from the trust, \$1 is refunded to the trust from the refundable tax account.

If the trust is wound up while a balance still exists in the refundable tax account, and the employer is entitled to the surplus on wind-up, the CRA will remit the final payment directly to the employer. For example:

- An employer contributes \$50 to the retirement compensation arrangement trust, which triggers a requirement to remit \$50 to the CRA.

- The first \$50 is invested in interest-bearing assets; the CRA remittance is deposited in the refundable tax account at a zero percent of return.
- Upon payment of retirement benefits to the plan member, the trustee is entitled to claim a refund from the refundable tax account. The trustee receives \$1 from the refundable tax account for every \$2 paid to a plan member.

Plan assets are assets that are held by an entity that is legally separate from the reporting entity and exists solely to pay or fund employee benefits. The retirement compensation arrangement is considered a retirement arrangement under IAS 19 *Employee Benefits*. Therefore, plan assets are measured at fair value. The plan sponsor recognizes an expense equal to net interest on the net defined benefit liability. Net interest is the sum of interest income on the plan assets, interest cost on the plan obligation and the interest effect of any asset ceiling. Interest income on the plan assets is determined for these purposes by multiplying the fair value of the plan assets by the discount rate. Any difference between interest income and the actual return on plan assets is a remeasurement to be recognized in other comprehensive income.

Issue: How should the amounts held by the refundable tax account be accounted for?

View A – The refundable tax account is a plan asset and should be measured at face value. Interest income is recognized at the discount rate and the remeasurement loss is recognized in other comprehensive income.

The refundable tax account meets the definition of a plan asset since it exists solely to pay employee benefits. The face value represents the amount that will be paid to the trust and, hence, to the employee any time that benefits are paid or repaid to the entity in the event of plan wind-up. The requirements relating to net interest mean that interest income must be calculated on the face value of the refundable tax account. This is the case even though the refundable tax account does not bear interest. Thus, a remeasurement loss equal to the interest income computed will be recognized in other comprehensive income in each period.

View B – The refundable tax account is a plan asset and should be measured at face value. As the asset does not bear interest, no interest income should be recognized.

The view is consistent with View A other than the calculation of interest income. Proponents of this view argue that the net interest requirements of IAS 19 do not contemplate this type of arrangement and that the discount rate should only be applied to interest-bearing plan assets. Neither interest income nor a remeasurement loss should be recognized for the refundable tax account.

View C – The refundable tax account is a plan asset and should be measured at its discounted value. An entry will be recorded on initial recognition as part of net income. Interest income is recognized at the discount rate.

Proponents of this view argue that the fair value of refundable tax account assets should be determined by considering the limitations on their use. Fair value should be initially estimated through discounting the expected cash flows for the effects of the time value of money between the contribution date and the date the money is expected to be paid to the beneficiaries. The fair value would then be adjusted with the passage of time. This approach is consistent with the measurement of the corresponding defined benefit

obligation. It is also consistent with the measurement of reimbursement rights, qualifying insurance policies and interest-free loans receivable.

Under this approach, the initial entry would be to recognize in net income the difference between the discounted amount and the face value of the contribution to the refundable tax account. Net interest will include interest income determined by applying the discount rate to the refundable tax account. Actual interest is equal to the periodic unwinding of the discount rate through the adjustment of the refundable tax account to its new fair value each period. The difference between these amounts is recognized in remeasurements and will be nil if the discount rate used for the refundable tax account and the defined benefit obligation are the same.

View D – The refundable tax account is a plan asset and should be measured at its discounted value. An entry will be recorded in either net income or other comprehensive income. Interest income is recognized at the discount rate.

The approach is the same as View C except for the initial recognition entry, for which a policy choice is permitted.

The Group's Discussion

Group members observed that this issue has arisen as a result of the revision to IAS 19 that was effective for annual periods beginning on or after January 1, 2013. Previously under IAS 19, entities were able to specify the assumption on asset return. Now, investment income on plan assets is calculated based on the discount rate.

The majority of Group members supported a discounting approach to measuring the refundable tax account at fair value. The standard requires that plan assets be measured at fair value. This fair value approach is consistent with the economics of the decision to invest cash into a refundable tax account that is non-interest bearing and is subject to transfer limitations. Therefore, discounting the face value to arrive at a fair value reflects the economics of a refundable tax account. Group members had varying views on whether the initial entry to recognize the difference between the discounted amount and the face value of the contribution amount should be recorded in net income or other comprehensive income.

A smaller number of Group members thought the refundable tax account could be recognized at face value if the difference between the face value and discounted value is not material. While it was noted there may be complexity in measuring the discounted value (i.e. estimating maturity), stakeholders should consider if an entity is able to reclaim the refundable tax account in a short period of time to determine if the difference is material.

The Group discussed this topic to raise awareness and recommended that the AcSB consider if this is a common issue among Canadian private enterprises.

IAS 32, IAS 33 and IFRIC 17: Dividend Reinvestment Plans

Many companies in Canada have dividend reinvestment plans (referred to as "DRIPs"). Although the features may vary from plan to plan, some common features include the following:

- Calculating the number of shares to be issued based on dividing the cash dividend declared by 95 per cent of a volume weighted average share price. The shareholders effectively receive a premium of five per cent over the cash dividend.
- Selection of a cash, versus share, option is usually required prior to a dividend record date and this date in most cases precedes the balance sheet date (i.e., it is often known at the quarter-end balance sheet date how many shareholders have elected to receive shares).

Issue 1: Should a liability be accrued for the dividend payable as a whole or only for the amount expected to be settled in cash?

As the dividend will be settled in a variable number of shares, it appears that a liability for the entire dividend should be accrued at the balance sheet date (i.e., at that date the entity has an obligation to deliver cash or a variable number of shares). Recording at least the cash equivalent of the obligation seems consistent with practice.

The Group's Discussion

Group members did not express alternative views about recording the cash equivalent of the obligation.

Issue 2: Should the liability include a five per cent premium for amounts to be settled in shares and should amounts ultimately credited to equity be based on the fair value of the shares on the settlement date?

View 2A – Yes.

At the balance sheet date, the entity has a liability to deliver a variable number of shares to those who elected to participate in the DRIP. The liability qualifies as a financial liability under IAS 32 *Financial Instruments: Presentation* and should be recorded at fair value on initial recognition. The fair value of the liability should incorporate the expected value of the shares to be delivered based on level 1 trading prices and should not incorporate any discount for liquidity or transaction costs.

This view is consistent with guidance in IFRIC 17 *Distributions of Non-cash Assets to Owners*, which indicates that where a dividend has a cash and non-cash alternative, the fair value of each alternative and the probability that it will be selected should be factored into the amount recorded as a liability. Even though IFRIC 17 does not apply directly because it is intended to address distributions of “non-cash assets” such as property, plant and equipment rather than equity instruments, it can provide a useful analogy. In the November 2007 meeting, the IFRS Interpretations Committee noted that IFRIC 17 is not intended to cover dividend reinvestment plans. However, it is unclear whether that discussion contemplated dividend reinvestment plans where a discount to market price was present.

Under this view, the arrangement is not in substance a rights offering because the shareholders simply receive shares when electing to participate in the dividend reinvestment plan. They don't actually receive cash that they then reinvest. Further, the variable number of shares to be delivered would preclude a rights offering from meeting the fixed number of shares for a fixed amount of cash classification as required to qualify as equity in accordance with IAS 32.

View 2B – No.

The arrangement should be viewed as a “rights offering”. The substance of the arrangement is that all shareholders receive (notionally) the cash dividend and they all have an ability to elect to participate in a rights offering at less than market price of the shares. IAS 33 *Earnings per Share* discusses the accounting for rights issues, including the requirement to apply the accounting retrospectively to all periods presented in the financial statements.

View 2C – Policy choice.

There is either a policy choice between View 2A and View 2B, or the facts and circumstances of a particular arrangement should determine whether it is viewed as a rights offering or an arrangement involving a financial liability.

The Group’s Discussion

The majority of Group members supported View 2A. Some Group members thought the analogy to a “rights offering” appeared reasonable but noted that consideration should be given to how material the five per cent premium amount would be.

Issue 3: Assuming the shares are recorded at their fair value on issuance, how should any difference between the liability accrued at the balance sheet date and the ultimate settlement amount be recorded?

View 3A – Adjustment to equity.

The arrangement is a transaction with owners and, therefore, does not meet *The Conceptual Framework for Financial Reporting* definitions of income or expense. The guidance in IFRIC 17 that allows for remeasurements of non-cash distribution liabilities through equity is relevant and may be applied by analogy.

View 3B – Profit or loss.

The arrangement should be accounted for as an “other liability” under IAS 39 and any remeasurements of that liability should be recorded in profit or loss as a financing charge.

The Group’s Discussion

A few Group members who commented on this issue supported View 3B because there is sufficient guidance in IAS 39 that subsequent remeasurements of a financial liability should be recorded in profit or loss.

Issue 4: Are views affected when the units are classified as equity because of the puttables amendment (for example, certain trusts /real estate investment trusts)?

The underlying units are presented as equity, but the definition of financial liability in IAS 32 does not consider such units as equity for other purposes (for example, the application of IAS 33).

The Group’s Discussion

Group members did not express alternative views.

Issue 5: Certain plans are structured as “Share Dividend Plans” rather than dividend reinvestment plans. The typical Share Dividend Plan enables shareholders to receive their dividends directly in the form of common shares, which are issued at a five percent discount from the prevailing market price (as opposed to reinvesting cash dividends). Is the accounting for such plans subject to different considerations than for dividend reinvestment plans?

Although these plans differ in form, the substance appears to be the same as a dividend reinvestment plan and, therefore, consistent accounting should apply.

The Group’s Discussion

Group members did not express alternative views.

Overall, the Group noted that consideration should be given to the materiality of the premium associated with a dividend reinvestment plan. If the relevant IFRS guidance is not followed because the impact is determined to be immaterial to the users of financial statements, the analysis in support of that treatment should be documented.

The Group’s discussion raises awareness about this item. The Group did not recommend any further action be taken on this item.

Disclosures of Contractual Commitments

The role of management ability and/or intent in accounting for assets and liabilities under IFRSs is somewhat inconsistent. In some cases, an entity’s plans and expectations may factor into the nature and/or type of asset or liability recorded in the financial statements, as well as its presentation. Other areas of IFRSs are equally clear in describing the extent to which management intent is precluded. Some fundamental accounting concepts focus on an entity’s ability (rather than intent) to do something, while still other standards refer to both notions of ability and intent.

The ability to avoid costs regardless of intent is a key concept in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and factors into the determination of whether an obligation exists at the reporting date. The same concept appears to affect the determination of whether disclosures of certain contractual terms and commitments are required under IFRSs.

Issue: To what extent is the ability to avoid future expenditures relevant for IFRS disclosure purposes?

The term “commitment” is not defined in IFRSs.³ However, with respect to liabilities, *The Conceptual Framework for Financial Reporting* notes that a decision by management to acquire assets in the future does not, of itself, give rise to a present obligation unless the entity enters into an irrevocable agreement to acquire the asset.

³ In contrast, “firm commitment” and “firm purchase commitment” are defined terms in IFRSs.

Some IFRSs (such as IFRS 12 *Disclosure of Interests in Other Entities*, IAS 17 *Leases*, and IAS 24 *Related Party Disclosures*) provide some detail on the notion of “commitment” to which their disclosure objective relates, even if they do not define that term.

Given that commitments are undefined in the literature, it might appear from Chapter 4: *The 1989 Framework: the remaining text*, that irrevocability is a key differentiating feature, even for disclosure purposes. Future commitments, much like the management decisions that give rise to them, can be rescinded or cancelled. Is there a clear and consistent disclosure principle for commitments in the literature? Further, to the extent they are cancellable, does management’s ability to cancel an agreement and, as a result, avoid the future expenditure, render the disclosure of such commitments relevant to financial statement users?

View A – Unrecognized contractual commitments are disclosed regardless of management’s ability or intent to avoid the commitment, unless a specific standard specifies otherwise.

Unless specific reference is made in the standards, the disclosure is required. While IAS 17 requires disclosure of total future minimum lease payments under non-cancellable operating leases, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, in contrast, do not distinguish between cancellable and non-cancellable commitments for the acquisition of property, plant and equipment and intangible assets for disclosure purposes. Therefore all such commitments are disclosed.

The threshold for disclosure in IAS 24 could be especially low, given the relationship of the parties behind the contractual commitment, and the objective of the standard to highlight to users the potential effect such relationship has on the financial statements. In this case, the ability or intent to cancel the commitment is a term and/or condition of the agreement that requires disclosure under IAS 24, and not a feature that determines whether disclosure is made. Consequently, many commitments and executory contracts could potentially be affected (for example, goods and services outside the scope of IAS 16, IAS 17 and IAS 38).

Paragraph 114(d) of IAS 1 *Presentation of Financial Statements* includes contingent liabilities and unrecognized contractual commitments in its discussion of items to be presented in the notes to the financial statements. View A takes a literal read of this paragraph to encompass disclosure of all such contractual commitments over and above specific requirements in the standards, irrespective of the ability and/or intent to cancel.

View B – Unrecognized contractual commitments are disclosed having regard to management’s ability or intent to avoid the commitment, in addition to other factors specific to an entity.

View B approaches the disclosure requirements at the level of the specific standard first. If non-cancellability is specific to the disclosure requirement, disclosures of cancellable and/or avoidable commitments are made in relation to an entity’s particular facts and circumstances and judgment is required.

Management’s ability to cancel the contract renders the disclosure of all such cancellable contracts less relevant to users of financial statements. As there is no binding obligation on the entity and management can unilaterally avoid future expenditures under the contract, there is no risk that the entity could fail to meet a commitment that could result in a cash outflow in the future. Therefore, disclosure of such information is not meaningful.

The argument that disclosure of cancellable commitments is not meaningful appears to analogize to the measurement requirements for onerous contracts in IAS 37. If management is able to cancel the contract for no cost, no provision is required for onerous contracts. It would then follow that where an unrecognized contractual commitment can be cancelled for no cost, no disclosure of such commitment is required (as in substance, it does not exist).

View B does not interpret paragraph 114(d) of IAS 1 to be an all-encompassing disclosure requirement for unrecognized contractual commitments. The paragraph is regarded as a general discussion pertaining to the structure and ordering of notes to the financial statements rather than their specific content. This view also considers the perceived lack of a broad disclosure requirement for all contractual commitments (cancellable or not) as an indication that the IASB has applied the cost constraint principle on useful financial reporting.

Entities routinely enter into company-wide executory contracts to which they are contractually committed (for example, long-term employee contracts, IT/telecom service provider contracts). Those contracts may be more significant to the ongoing operations of the business than open purchase orders for items of property, plant and equipment. However, they are not disclosed in the notes to the financial statements even if they are non-cancellable.

The Group's Discussion

Group members expressed a number of general thoughts on what should be disclosed in various circumstances, including a common understanding that irrevocable commitments requiring an outflow of economic benefits are required to be disclosed in accordance with IAS 37. In other circumstances, if no specific IFRS requirements apply, the extent of disclosure to meet IAS 1 requirements is based on professional judgment with a view to providing relevant information to users of financial statements.

Some factors to consider when deciding on the appropriate level of disclosure under IAS 1 include the following:

- whether the commitment is significant to the entity's operations;
- if the commitment is required to maintain key assets of the company;
- whether it is practical for management to cancel the commitment; and
- the conditions in the agreement with respect to cancelability.

The Group's discussion raises awareness about this item. The Group is not aware of diversity in practice and did not recommend any further action to be taken.

IFRS 9 and IAS 39: Flow-through Shares with Attached Share Purchase Warrants

Current Canadian tax legislation permits entities in mining or oil and gas exploration, and entities in certain emerging technologies, to issue securities to investors whereby the deductions for tax purposes related to expenditures made previously, or in the future, may be claimed by the investors and not by the entity (commonly referred to as "flow-through shares"). The purchase of a flow-through share gives an investor the rights to a common share of the issuer and a future tax deduction equal to the cost of the initial investment.

In certain circumstances, entities may issue flow-through shares with attached share purchase warrants, which in substance represents:

- the issuance of an ordinary share;
- the sale of tax deductions (i.e., flow-through liability); and
- the issuance of a warrant.

IFRSs do not explicitly address the accounting for flow-through shares or the related tax consequences arising from such transactions. The concept of flow-through shares has been discussed previously by the Group, as well as by industry groups.⁴ The focus of this discussion is to deliberate specifically the accounting for flow-through shares with an attached share purchase warrant classified as equity.

Issue: How should an issuer allocate the proceeds received from the issuance of a unit comprised of a flow-through share with an attached purchase warrant classified as equity? Specifically, what measurement approaches should an issuer consider when allocating the proceeds received from the issuance of such a unit to its various components?

View A – The flow-through liability should be measured at fair value, with the residual proceeds allocated within equity.

On issuance, the flow-through share liability is measured at fair value with the remaining proceeds allocated within equity (for example, between common stock and warrant reserve). Absent explicit IFRS guidance on this issue, consideration may be given to IAS 18 *Revenue*, IAS 32 *Financial Instruments: Presentation* and/or IAS 39 *Financial Instruments: Recognition and Measurement*.

Paragraph 32 of IAS 32 may be helpful when determining the accounting treatment for the flow-through liability even though it is not a financial liability. When making the allocation decision, the equity component is assigned the residual amount after deducting the amount separately determined for the liability component from the fair value of the flow-through share with attached share purchase warrant as a whole.

From the perspective of IAS 18, the flow-through liability can be viewed to represent the sale of future tax deductions. The obligation to fulfill this liability can be considered similar to unearned revenue. Paragraph 9 of IAS 18 requires revenue to be measured at the fair value of the consideration received or receivable.

Both of these perspectives support the view that the flow-through liability should be measured at fair value.

View B – Both the ordinary share and warrant should be measured at fair value with remaining proceeds allocated to the flow-through liability.

Unlike View A, since the flow-through liability is not a financial liability, guidance in IAS 32 is viewed to be less relevant. Priority is given to ensuring that the financial instrument components of the flow-through share with attached share purchase warrant (i.e., the ordinary share and the warrant) are measured at fair value based on guidance in IAS 39. The residual component is then allocated to the flow-through share liability. Similar outcomes should arise between View A and View B if the sum of the fair values of each

⁴ Refer to the [“Viewpoint: Flow-Through Shares,”](#) prepared by the Mining Industry Task Force on IFRSs and [“Viewpoint: Flow-Through Shares,”](#) prepared Oil and Gas Industry Task Force on IFRSs.

component equals the proceeds received. However in practice, there are situations where the total fair value of the ordinary share and/or warrant exceeds the proceeds received.

View C – Accounting policy choice.

IFRSs do not specifically address the accounting for flow-through shares or the related tax consequences arising from such transactions. Paragraphs 10-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* indicate that management should use professional judgment in developing an accounting policy in the absence of guidance. The policy selected (whether View A, View B or some other approach) should be clearly described and disclosed in the notes to the financial statements.

The Group's Discussion

Some Group members expressed support for View B, while other group members expressed conceptual support for View A (i.e., measuring the flow-through liability at fair value, with the residual proceeds allocated within equity). However, practical challenges in valuing the flow-through liability may result in an approach being taken that is similar to View B. Guidance exists in IFRS 13 *Fair Value Measurement* on valuation techniques, but considerable judgment is involved given the complexity of models and certain inputs used.

Group members emphasized that, in the end, preparers should ensure the answer they have arrived at is reasonable in terms of the amounts derived for each component of the unit. Factors to consider include whether the shares are thinly traded and the financial situation of the seller (i.e., if distressed or issuing these instruments as an alternative form of financing). Disclosure on the judgment used in valuing these components should be included in the notes to the financial statements.

The Group observed that this issue is unique to Canada and that the discussion raises awareness about this item. The Group did not recommend any further action be taken on this item.

IAS 33: Escrow Share Arrangements

Under the Capital Pool Company (referred to as "CPC") Program of the TSX Venture Exchange (referred to as "TSXV"), a shell company is formed with seed capital from founding investors. This shell company raises funds from other investors in an initial public offering with the intent of completing a qualifying transaction within 24 months. The other investors may include investors related or unrelated to the capital pool companies or founding investors but must include a certain number of arm's length investors. Qualifying transactions are typically the acquisition of a business. Certain shares issued by capital pool companies prior to the qualifying transaction are placed in escrow under TSX Venture Exchange rules. If a qualifying transaction occurs, the escrowed shares are typically released in tranches over three years. If a qualifying transaction does not occur within 24 months of listing, the TSX Venture Exchange may delist the capital pool company's shares. Escrowed shares are a trading restriction only. The shareholders still vote and receive dividends if declared.

Issue: Should these escrowed shares be considered contingently issuable shares or contingently returnable shares under IAS 33 Earnings per Share such that they should be excluded from the calculation of basic earnings per share (View A), or they should they be considered ordinary shares such that they are included in basic earnings per share (View B), prior to the qualifying transaction?

View A – Exclude from basic earnings per share while shares in escrow.

Escrowed shares should be excluded from basic earnings per share (referred to as “EPS”) until the escrow conditions have been removed because the shares meet the definition of either contingently returnable shares subject to recall (in accordance with paragraph 24 of IAS 33) or contingently issuable ordinary shares (in accordance with paragraph 5 of IAS 33). The necessary condition for the shares to be included in basic earnings per share is the completion of the qualifying transaction.

View B – Include in basic earnings per share from date of issuance.

The escrowed shares should not be treated as contingently issuable or contingently returnable. They have been issued for proceeds that are nonrefundable upon cancellation (and, therefore, were not issued for “little or no cash or other consideration”). Further, the shares do not meet the definition of contingently returnable shares because they are not subject to recall. The purpose of the Capital Pool Company Program is to complete a qualifying transaction and the entity issuing the escrow shares is committed to doing so.

The Group’s Discussion

The majority of Group members supported View A, noting that escrowed shares should be excluded from basic earnings per share until the escrow conditions have been removed. Group members noted that the Capital Pool Company Program exists because the completion of a qualifying transaction is not considered perfunctory.

The Group recommended the AcSB be asked to determine if there is diversity in practice on this issue and the actions that should be taken. Those actions might include suggesting to CPA Canada’s Oil and Gas Industry Task Force or Mining Industry Task Force that they publish material on this issue to raise awareness.

IFRS 11: Application Issues and Process of IFRS Interpretations Committee

The IFRS Interpretations Committee has had numerous discussions over the past year on implementation issues relating to IFRS 11 *Joint Arrangements*. Since November 2013, the IFRS Interpretations Committee has discussed this topic in five separate meetings.

The following are some of the implementation issues discussed by the IFRS Interpretations Committee:

- whether an assessment of “other facts and circumstances” should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms;
- how the parties to a joint operation should recognize assets, liabilities, revenues and expenses, especially if the parties’ interests in the assets and liabilities differ from their ownership interest in the joint operation; and

- the accounting by a joint operation that is a separate vehicle.

In September 2014, the staff of the IFRS Interpretations Committee produced an agenda paper titled "[Summary of Discussion](#)" that summarizes all the IFRS 11 issues that have been discussed to date, including the related status of those discussions. The IFRS Interpretations Committee will be considering its next steps with regard to various issues relating to IFRS 11 during its September 16-17, 2014 meeting.

Although the staff's agenda papers and discussions from IFRS Interpretations Committee meetings do not form authoritative guidance, they sometimes provide useful insights that individuals may look to in addressing IFRS 11 implementation issues that arise in practice. Tentative agenda decisions, once published in an "IFRIC Update", are open to public comment and, therefore, are subject to a more robust process of review prior to finalization.

The Group's Discussion

The Group received an update on next steps regarding various IFRS 11 application issues the IFRS Interpretations Committee has discussed to date. The Interpretations Committee intends to consolidate all its agenda decisions relating to IFRS 11 and prepare separate summaries for each topic in order to provide clarity on the application issues. The IFRS Interpretations Committee concluded it would not continue discussions on this topic until the completion of the IFRS 11 post-implementation review project expected to be undertaken by the IASB sometime next year.

Group members exchanged some observations on existing Canadian practice for some of the IFRS 11 application issues but noted that stakeholders should be aware that this remains an evolving area of practice.

The Group's discussion led to questions on how to consider the IFRS Interpretations Committee's agenda decisions, which are non-authoritative. Group members observed that it may be too early to comment on the implications for stakeholders of concluding differently from IFRS Interpretations Committee agenda decisions.

The Group recommended, as a future agenda topic, a more robust discussion of the IFRS Interpretations Committee process, including how stakeholders consider agenda decisions published by the IFRS Interpretations Committee when those decisions do not align with current practice. The Group also encouraged preparers to follow the [activities of the IFRS Interpretations Committee](#) and participate in providing comments to the IFRS Interpretations Committee.

UPDATE ON PREVIOUS ITEMS DISCUSSED BY THE GROUP

IFRIC 21: Levies

The IFRS Interpretations Committee has received submissions on IFRIC 21 *Levies* regarding how the debit related to a levy imposed on production assets should be recognized. While this does not appear to be an issue in Canada, stakeholders should keep abreast of the IFRS Interpretation Committee's discussion on this topic. The Group discussed the topic of IFRIC 21 at its [June 2014](#), [February 2014](#) and [December 2013](#) meetings.

OTHER MATTERS

IFRS 9: Financial Instruments

On July 24, 2014, the IASB issued the final version of the Financial Instruments standard that is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. One of the improvements is a single, forward-looking expected loss impairment model. To support the implementation of the new impairment requirements, the IASB has formed the [IFRS Transition Resource Group for Impairment of Financial Instruments](#), to which a Canadian member has been appointed. Stakeholders are reminded that the transition guidance is quite complex, especially for those who are considering early adoption. Early adopters are encouraged to review the transition guidance carefully to understand the options available to them.

IFRS 15: Revenue from Contracts with Customers

The IASB and the FASB have jointly issued a converged standard to improve the requirements for revenue recognition. IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. An [IASB/FASB Joint Transition Resource Group for Revenue Recognition](#) has been established to address potential implementation issues. The AcSB will be monitoring the work of the Joint Transition Resource Group, to which a Canadian representative has been appointed.

IAS 16: Accounting for Proceeds and Costs of Testing on Property, Plant and Equipment

The IFRS Interpretations Committee received a request to clarify the accounting for net proceeds received during the course of testing an item of property, plant and equipment. The fact pattern submitted may be of interest to certain industries in Canada (for example, mining). The submitter requested clarification on whether the net proceeds that exceed the costs of testing should be recognized in profit or loss or as a reduction against the cost of the asset. The IFRS Interpretations Committee has issued a tentative agenda decision to indicate that the excess net proceeds should be recognized in profit or loss. Stakeholders are encouraged to write to the IFRS Interpretations Committee before the end of the comment period if they have any concerns with the tentative agenda decision and follow the status of this issue.