

IFRS Discussion Group

Report on the Public Meeting

June 1, 2010

The IFRS Discussion Group (IDG) is a discussion forum only. The Group's purpose is to assist the Accounting Standards Board in identifying issues arising in relation to the application of International Financial Reporting Standards (IFRSs) in Canada. The Group is comprised of members with various backgrounds who participate as individuals in the discussion. Any views expressed in this report, or in the recording of the meeting, do not necessarily represent the views of the organization to which a member belongs or the views of the Accounting Standards Board.

(These notes report on the discussions held. For a full understanding of the discussions and views expressed, interested parties should listen to the recording of the meeting available [here](#). The discussions of the IFRS Discussion Group do not constitute official pronouncements or authoritative guidance.)

Issues Presented and Discussed at the June Meeting

[IFRS 1 and IAS 38: Indefinite Lived Intangibles Amortization](#)

[IAS 1: Compliance with IFRSs](#)

[IAS 12: Tax Asset Arising on Purchase of Tax Loss Carryforwards](#)

[IAS 7 and IAS 33: Cash Flow per Share](#)

[IAS 16: Farm-out or Option Agreements in the Mining or Oil and Gas Industries](#)

[IAS 36: Testing Goodwill for Impairment](#)

Update on Previous Issues IDG Recommended be Referred to the IASB or the IFRS Interpretations Committee

[IFRS 1 and IAS 23: Capitalization of Borrowing Costs](#)

[IAS 1: Going Concern](#)

[IAS 12: Income Taxes and Certain Structures](#)

[IAS 32: Classification of Income Trust Units](#)

IFRS 1 and IAS 38: Indefinite Lived Intangibles Amortization

Prior to January 2002, Canadian GAAP required amortization of indefinite lived intangibles. IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires retrospective application of IFRSs unless there is a specific exception or exemption. IAS 38 *Intangibles* states that indefinite-lived intangibles are not to be amortized. Therefore, on

transition to IFRSs, it appears that entities will be required to reverse previously recognized amortization. The issue was whether to request an exemption under IFRS 1.

The members recommended that this issue not be brought to the attention of the IFRS Interpretations Committee as the treatment under IFRS 1 is clear and there do not appear to be significant cost/benefit arguments to support proposing an exemption under IFRS 1.

IAS 1: Compliance with IFRSs

An entity may be required to prepare and present a single financial statement, or a specific element, account or item of a financial statement, in accordance with IFRSs. The issue was whether an entity can claim compliance with IFRSs when presenting financial information that is not a complete set of financial statements, and whether such information can be described as being “presented fairly.”

The members did not identify significant diversity in practice in the areas of concern as it is clear that a full set of financial statements is required for the minimum two year comparative period, including the related notes, in order to claim full compliance with IFRS. They also noted that some of the issues may be addressed by the IASB’s conceptual framework project on the reporting entity and there is not a pressing need for guidance sooner than expected from this project. Therefore, the members recommended that this issue not be brought to the attention of the IFRS Interpretations Committee.

IAS 12: Tax Asset Arising on Purchase of Tax Loss Carryforwards

An entity may acquire tax loss carryforwards at a deep discount in a transaction that is not a business combination. The issue was how to account for the difference between the amount at which the tax loss carryforwards are recognized in the statement of financial position in accordance with IAS 12 *Income Taxes* and the amount paid for them.

The members recommended communicating with the staff of the IASB’s income tax project because of the potential for diversity in practice of recognizing tax assets resulting from the purchase of income tax losses.

IAS 7 and IAS 33: Cash Flow per Share Information

Since 2003, Canadian standards have specifically prohibited financial statement presentation of cash flow per share information. IFRSs are silent on this issue; neither IAS 7 *Statement of Cash*

Flows nor IAS 33 *Earnings per Share* specifically discusses cash flow per share. Two views were presented on whether cash flows per share information can be presented under IFRSs:

- (a) View A — per share information based on other metrics is not permitted. IAS 33 only addresses per share information based on earnings.
- (b) View B — in the absence of a specific prohibition, cash flow per share is acceptable.

The issue was whether a request should be made to the IFRS Interpretations Committee for clarification of the appropriate accounting treatment.

As there is a current related project by the IASB, the members recommended communicating with the staff of the IASB's project on earnings per share because it is not clear whether presentation of cash flow per share information is acceptable under IFRSs.

IAS 16: Farm-out or Option Agreements in the Mining or Oil and Gas Industries

A farm-out is an agreement by which the owner of operating rights in a mineral property (the farmor) transfers a part of that interest to a second party (the farmee) in return for the latter's payment of all the costs, or only specified costs, to explore the property and perhaps to carry out part or all of the development of the property if reserves are found. The issue was whether the Group should address issues related to farm-out and option agreements in the mining or oil and gas industries.

The members agreed to continue the discussion of farm-out arrangements with a more developed analysis at the September 2010 meeting. A further discussion should assist in clarifying what the issues are and whether any issue should be referred to the IASB or IFRS Interpretations Committee.

IAS 36: Testing Goodwill for Impairment

IAS 36 *Impairment of Assets* sets out requirements for identifying cash-generating units (CGUs) and recognising impairment losses for CGUs and goodwill. The members discussed the difficulties some Canadian companies are having in applying the requirements to test goodwill for impairment under IAS 36 after an acquired business has been integrated into existing operations. Specifically, the issue was how to apply the standard when an impairment test does not reflect the economic substance that, in management's opinion, the acquired goodwill no longer has value. The members discussed the challenges in applying IAS 36 to certain situations.

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The members do not expect diversity in practice, and therefore, recommended that this issue not be brought to the attention of the IFRS Interpretations Committee.

UPDATE ON PREVIOUS ISSUES IDG RECOMMENDED BE REFERRED TO THE IASB OR THE IFRS INTERPRETATIONS COMMITTEE

IFRS 1 and IAS 23: Capitalization of Borrowing Costs

The capitalization of borrowing costs on transition to IFRSs was discussed by the members at the [March 4, 2010 meeting](#). Although there was diversity of opinion on whether restatement is required on transition, the members did not recommend that this issue be brought to the attention of the IFRSs Interpretations Committee. However, the Committee discussed the issue in its May 7, 2010 meeting and decided to recommend to the IASB that the exemption for borrowing costs in IFRS 1 *First-time Adoption of International Financial Reporting Standards* be amended through the annual improvements process. To see the proposed amendments please read the May 2010 [IFRIC Update](#)

IAS 1: Going Concern

The members had discussed the requirements in paragraph 25 of IAS 1 *Presentation of Financial Statements* to disclose material uncertainties at the [March 4, 2010 meeting](#). The members were concerned that IAS 1 did not state that management must provide information on whether those uncertainties cast doubt on the entity's ability to continue as a going concern and that such disclosure may not be provided in practice without an explicit requirement. The IFRS Interpretations Committee discussed the issue in its May 7, 2010 meeting and made a tentative decision not to add the item to its agenda because IAS 1 provides sufficient guidance and the Committee does not expect diversity in practice. The Committee's May 2010 [IFRIC Update](#) stated that the Committee "noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern."

IAS 12: Income Taxes and Certain Structures

Under pre-changeover Canadian GAAP, EIC-107, Application of CICA 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts, provides guidance on the income tax treatment of distributions to the trust's unitholders. The recognition of taxes in

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accordance with IAS 12 *Income Taxes* in the situation covered by EIC-107 was discussed at the [March 4, 2010](#) meeting of the Group. Subsequently, in the IASB's March 18, 2010 meeting, the issue was discussed and its March [IASB Update](#) stated that "... the Board indicated that it would explore the possibility of resolving the issue of the tax effect of dividends by entities, such as real estate investment trust and co-operative societies."

IAS 32: Classification of Income Trust Units

At the [March 4, 2010 meeting](#), the members discussed the classification of puttable financial instruments commonly utilized in Canadian income trust structures, in accordance with IAS 32 *Financial Instruments: Presentation*. At its May 7, 2010 meeting, the IFRS Interpretations Committee discussed whether to request clarification, through the annual improvements process, regarding the classification of puttable financial instruments that include a contractual obligation to provide pro-rata distributions. The Committee decided not to propose any amendments to IAS 32. The reasons for this decision are provided in its May 2010 [IFRIC Update](#).