

The reconstituted Interpretations Committee met for the first time on 26 and 27 February in London. At the meeting it:

- discussed how it wishes to operate within the constraints set by the mandate and operating procedures
- reconsidered the proposed final Interpretation, SIC-32 *Intangible Assets – Web Site Costs*, and agreed that initial graphic design costs could be included in the costs of developing a web site. The Committee agreed to resubmit SIC-32 to the Board for approval; and
- considered future agenda items.

## Operating methods

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The Committee considered the following issues:

- The form of its output. The Committee agreed that, in the light of its wider remit, its output should be tailored to the nature of the issue being addressed. This might include issuing an Interpretation, recommending to the IASB that a Standard or the Framework be changed or providing input into an IASB project.
- Whether and how Interpretations should be related to any relevant Standard(s). The Committee agreed to explore several possibilities, including the numbering of Interpretations so as to refer to any relevant Standard and, where appropriate, incorporating Interpretations into the text of the relevant Standard.
- How to ensure that potential agenda items are brought to the attention of the Committee and to minimise the risk of differing national interpretations being developed. In particular, the Committee discussed how best to liaise with other bodies, including the liaison national standard-setters and their interpretive groups, regulators of companies using IFRS, and major accounting firms.
- Whether Interpretations should be drafted in a more direct question and answer format.
- The possibility of a fast-track procedure for urgent issues, perhaps including a shortened comment period.

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- How to progress agenda items as quickly as possible while ensuring that issues are properly considered and due process observed.
- How to set effective dates and transitional provisions. The Committee decided to develop general principles that it would refer to in setting effective dates and transitional provisions for individual Interpretations. It noted the need to follow the IASB's policy on "first-time adoption".

## Proposed final Interpretation, SIC-32

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- *Intangible Assets - Web Site Costs*

In December 2001 the Board considered, but did not approve, proposed final SIC Interpretation 32 *Intangible Assets – Web Site Costs*. The Board took the view that it was important for the proposed treatment of initial graphic design costs to converge, if possible, with that required by interpretive groups sponsored by the liaison national standard-setters that have addressed the topic. The Committee considered the Board's comment and agreed to change the treatment to require such costs to be included in the costs of developing a web site and hence capitalised when certain conditions are met.

The Committee agreed to resubmit the proposed Interpretation to the Board for its approval. If approved, the Interpretation will become effective on the date of issue, and the transition requirements of IAS 38 *Intangible Assets* will be applied.

## Agenda items

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The Interpretations Committee agreed to discuss the following items at a future meeting:

- *Financial instruments: Distributions at the discretion of the issuer*

Paragraph A21 of the Appendix to IAS 32 requires non-redeemable shares to be classified as equity instruments when distributions to the holders are at the discretion of the issuer. The Committee agreed to consider providing guidance for determining when an issuer of such shares has discretion. The Committee also agreed to consider this question in the context of both the issuer's financial statements and consolidated financial statements that incorporate the financial statements of the issuer.

- *Employee benefits – Limit on recognition of an asset*

IAS 19.58 imposes a limit on the measurement of a pension asset. In determining that limit, subparagraph 58(b)(ii) requires measurement of the present value of any economic benefits available in the form of refunds from the plan and reductions in future contributions to the plan. The Committee agreed to consider providing

guidance on the conditions necessary for a refund to be considered available, how to determine the amount of a refund, and how to determine reductions in future contributions.

- *Employee benefits – Changes in employment benefits and actuarial assumptions*

Some entities are significantly increasing the salaries of employees in return for decreasing their post-employment benefits. The Committee agreed to consider providing guidance on whether these changes should be accounted for separately or as one change.

- *Non-cash dividends*

The Committee considered whether non-cash dividends issued should be measured at fair value or carrying value. The Committee asked staff to prepare an overview paper that considers the concepts that underlie the accounting for transactions with owners and controlled entities. The Committee plans to review the paper and submit it to the Board for consideration as input to the Board's thinking on the definition and recognition of the elements.

- *Revenue*

The following revenue topics were briefly discussed:

- Revenue: gross vs. net
- Revenue recognition: specified trade-in rights; and
- Loyalty programmes.

The Committee asked staff to prepare an overview paper that might enable it to propose an approach for dealing with revenue recognition issues. It was conscious that the Board itself might be looking at revenue more fundamentally.

- *Rights of use of assets*

Some entities are entering into contractual arrangements to acquire the right to use assets for a specified period from other entities, without legal title being transferred. An example is when an entity in the telecommunications industry agrees with another entity to use a specified capacity of its infrastructure assets (eg conduit and fibre optic cables). Other examples of situations when an entity might enter into similar arrangements include: an oil and gas producer that requires use of some of the capacity in a pipeline to deliver the gas it produces; and a hydroelectricity business that requires use of some of the capacity in a network to distribute the electricity it generates. The Committee agreed to consider providing guidance on a series of sub-issues in this area (for example, when should a lease be said to exist).

## **Not added to the agenda**

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The following items were not added to the agenda:

- *Financial instruments*

Certain issues related to the classification of financial

instruments under IAS 32 that were previously reported in the May 2001 edition of *News from the SIC* and are being addressed in the IAS 32 improvements project.

- *Service concessions*

Whether an entity that operates a service concession—an arrangement to provide services that give the public access to major economic and social facilities—should recognise and, if so, how it should measure the right it receives and obligation it incurs to provide the public service.

- *Provisions – onerous contracts*

When an entity should recognise, and how it should measure, an impairment of an asset received or another loss under a firmly committed executory contract.

- *Provisions – examples of constructive obligations*

Examples of when constructive obligations do and do not exist under IAS 37.

- *Investments in associates – investments after discontinuing equity accounting*

How an investor should account for an additional investment made in an associate when the equity method of accounting has been discontinued because the investor's share of the associate's post-acquisition losses is such that the carrying amount of the investment is nil.

- *Taxes – asset revaluation*

Whether, under IAS 12 *Income Taxes*, changes in the fair value of assets, give rise to taxable temporary differences and deferred tax liabilities.

- *Taxes – effective rates*

The tax rate to be used to measure deferred tax assets and deferred tax liabilities for entities that have low effective tax rates, eg because some income is exempt from tax.

- *Employee benefits – calculation of discount rates*

How to determine the discount rate to be used in measuring a defined benefit liability under IAS 19 when there is no deep market in high quality corporate bonds and the terms of government bonds are much shorter than the benefit obligations.

- *Intangible assets – costs of acquiring or developing content for electronic databases*

How to account for the costs of acquiring or generating information to be included in an electronic database.

<p><b>Future Meetings</b> –All meetings in 2002 are expected to be in London. Meeting dates, tentative agenda and additional details about the next meeting will be posted to the IASB homepage at <a href="http://www.iasb.org.uk">www.iasb.org.uk</a> before the meeting.</p>
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