

IFRS 4 Insurance Contracts (January 2010)

Scope issue for REITs

In some jurisdictions, a Real Estate Investment Trust (REIT) is a tax or regulatory designation used for an entity investing in real estate that meets certain criteria, for example to attain preferential income tax status. In some of these cases, the contractual terms of the ownership units of such REITs require it to distribute 90% of the Total Distributable Income (TDI) to the investors. The remaining 10% of TDI may be distributed at the discretion of management. The IFRIC received a request to provide guidance on whether the discretion to distribute the remaining 10% of TDI met the definition of a Discretionary Participation Feature (DPF) as defined in IFRS 4. If the DPF definition is met, IFRS 4 permits the ownership units to be classified as a liability rather than assessing the instrument for financial liability and equity components in accordance with IAS 32.

The IFRIC noted that the objective of IFRS 4 is to specify the financial reporting for insurance contracts. The IFRIC noted that the definition of DPF in Appendix A of IFRS 4 requires, amongst other things, that the instrument provides the holder with guaranteed benefits and that the DPF benefits are additional to those guaranteed benefits. Furthermore, the IFRIC noted that there must be guaranteed benefits to the holder for the definition to be met and that such guaranteed benefits are typically those present in insurance activities. The IFRIC noted that providing guidance on this issue would be in the nature of application guidance, rather than interpretative guidance. Therefore, the IFRIC decided not to add the issue to its agenda.