WHAT IS CLAIMED IS:

1. A decoder configured to:

receive a bitstream generated by an encoder and comprising signaling information and a first coded picture to be used as a reference picture and a second coded picture, the second coded picture comprising a first block and a second block, the signaling information including a sequence parameter set (SPS) indicating that a mode is enabled in which a portion of a reference picture can be modified;

decode and store the first picture as a reference picture;

using the mode, modify a portion of the reference picture solely in response to information generated by the encoder and included in the bitstream;

utilize the modified portion of the reference picture as a predictor for the first block of the second picture;

decode the first block by adding residual pixels to the predictor; and

decode the second block of the second picture without using a modified portion of any reference picture.

2. The decoder of claim 1 wherein the first block and the second block are NxN coding units.

3. The decoder of claim 1 wherein the second block of the second picture is an intra-coded block.