

November 2011

IFRIC Update is published as a convenience for the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future IFRS Interpretations Committee meetings.

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on 3 and 4 November 2011, when it discussed:

- Current agenda:
 - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—levies charged for participation in a market on a specified date
 - IAS 32 *Financial Instruments: Presentation*—NCI put options
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- IFRS Interpretations Committee other issues considered
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress

Current agenda

The Interpretations Committee discussed the following issues, which are on its current agenda.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—levies charged for participation in a market on a specified date

The Interpretations Committee received a request to clarify whether, under certain circumstances, IFRIC 6 *Liabilities arising from participating in a specific market—Waste Electrical and Electronic Equipment* should be applied by analogy to identify the event that gives rise to a liability for other levies charged for participation in a market on a specified date. The concern relates to when a liability should be recognised and to the definition of a present obligation in IAS 37.

At the July 2011 meeting, the Committee decided to add this issue to its agenda with the aim of developing guidance.

At the November 2011 meeting, the Committee continued its discussions and noted the following:

- An entity does not have a constructive obligation to pay a levy that arises from operating in a future period, even if the entity is economically compelled to continue operating in that future period.
- The going concern principle does not lead to the recognition of a liability at a reporting date for levies that arise from operating in the future.
- The obligating event in accordance with IAS 37 is the last of the necessary events that is sufficient to create the present obligation. Consequently, for example, the obligating event for a levy that is charged if the entity undertakes discrete activities both in the current and in the previous period is the activity in the latter period as identified by the legislation.
- The obligating event arises progressively if the activity that creates the present obligation occurs over a period of time. For example, a liability is recognised progressively if the obligating event as identified by the legislation is the generation of revenues over a period of time.
- The liability for the obligation to pay a levy gives rise to an expense, unless the levy is an exchange transaction in which the entity that pays the levy receives assets or future services in consideration for the payment of the levy.

The Committee directed the staff to test the principle that the obligating event arises progressively if the activity that creates the present obligation occurs over a period of time. The Committee directed the staff to test this principle against specific examples and to provide the Committee with proposed guidance to consider this issue at a future meeting.

IAS 32 *Financial Instruments: Presentation*—NCI put options

Over several meetings, the Interpretations Committee has discussed aspects of the accounting for put options written over non-controlling interests ('NCI puts') in the consolidated financial statements of the controlling shareholder. Constituents have expressed concerns about the diversity in accounting for the subsequent measurement of the financial liability that is recognised for NCI puts.

The Committee discussed several possible short-term solutions and, in March 2011, it agreed that excluding NCI puts from IAS 32 through a narrow-scope amendment was a viable solution. The scope exclusion would change the measurement basis of NCI puts to the measurement that is used for other derivative contracts.

In September 2011 the Board decided not to proceed with the proposed amendment to the scope of IAS 32 that had been recommended by the Committee.

However, the Board asked the Committee to consider addressing the diversity in accounting, not by changing the measurement basis of the NCI puts, but by clarifying the accounting for subsequent changes in those liabilities. The Board asked the staff to obtain feedback from the Committee on whether it wished to be involved in further considering this issue.

At the November 2011 Committee meeting, the Committee confirmed that it is willing to consider this issue further and decided to take the issue back onto its agenda. It asked the staff to obtain clear guidance from the Board on how the Board would like the Committee to take the issue forward.

IFRS Interpretations Committee agenda decisions

The following explanation is published for information only and does not change existing IFRS requirements. Committee agenda decisions are not Interpretations. Interpretations are determined only after extensive deliberation and due process, including a formal vote. Interpretations become final only when approved by the IASB.

IAS 12 *Income Tax*—Rebuttable presumption to determine the manner of recovery

Paragraph 51C of IAS 12 contains a rebuttable presumption, for the purposes of recognising deferred tax, that the carrying amount of an investment property measured at fair value will be recovered through sale. The Committee received a request to clarify whether that presumption can be rebutted in cases other than the case described in paragraph 51C.

The Interpretations Committee noted that a presumption is a matter of consistently applying a principle (or an exception) in IFRSs in the absence of acceptable reasons to the contrary and that it is rebutted when there is sufficient evidence to overcome the presumption. Because paragraph 51C is expressed as a rebuttable presumption and because the sentence explaining the rebuttal of the presumption does not express the rebuttal as 'if and only if', the Committee thinks that the presumption in paragraph 51C of IAS 12 is rebutted in other circumstances as well, provided that sufficient evidence is available to support that rebuttal.

Based on the rationale described above, the Committee decided not to add this issue to its agenda.

IFRS Interpretations Committee tentative agenda decisions

The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Committee's agenda, will be reconsidered at the Committee meeting in January 2012. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by 12 December 2011 to: ifric@ifrs.org. Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IAS 19 Employee Benefits—Applying the definition of termination benefits to ‘Altersteilzeit’ plans

The Interpretations Committee received a request for guidance regarding the application of IAS 19 (2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany. ATZ plans are early retirement programmes designed to create an incentive for employees within a certain age group to smooth the transition from (full- or part-time) employment into retirement before the employees’ legal retirement age. ATZ plans offer bonus payments to employees in exchange for a 50 per cent reduction in working hours. Their employment is terminated at the end of the required service period. The bonus payments are conditional on the completion of the required service period. Eligibility for the benefit would be on the basis of the employee’s age but would also typically include a past service requirement.

IAS 19 (2011) was the result of revisions issued in 2011 to IAS 19. These revisions, among other things, amended the guidance relating to termination benefits. IAS 19 (2011) defines termination benefits as those benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate the employment before the normal retirement date or an employee’s decision to accept an entity’s offer of benefits in exchange for the termination of employment.

The Committee noted that ATZ plans have attributes of both required service and termination benefits. The Committee also noted that, consistent with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are conditional upon completion of employee service over a specified period indicates that the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits.

On the basis of the analysis described above, the Committee [decided] not to add the issue to its agenda.

Issues considered for Annual Improvements

The Interpretations Committee assists the IASB in Annual Improvements by reviewing proposed improvements to IFRSs and making recommendations to the Board. Specifically, the Committee’s involvement includes reviewing and deliberating issues for their inclusion in future exposure drafts of proposed Improvements to IFRSs and deliberating the comments received on the exposure drafts. When the Committee has reached consensus on an issue included in Annual Improvements, the recommendation (including finalisation of the proposed amendment or removal from Annual Improvements) will be presented to the Board for discussion, in a public meeting, before being finalised. Approved Improvements to IFRSs (including exposure drafts and final standards) are issued by the Board.

Issues recommended for inclusion in the 2011-2013 cycle for Annual Improvements

At its meeting in November 2011, the Committee deliberated the following four issues and recommended that the Board should add them to Annual Improvements. The Committee’s recommendation will be submitted to the Board for discussion at a future Board meeting. If these recommendations are accepted by the Board, they will be included in the exposure draft of proposed *Improvements to IFRSs* that is expected to be published during 2012. Four issues were discussed:

IFRIC 12 *Service Concession Arrangements* —presentation of cash flows for construction or upgrade services

The Interpretations Committee received a request to address an issue related to presentation of cash flows for an operator in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*.

Specifically, the submitter requested that the Committee should clarify whether:

- cash inflows relating to construction services under a service concession arrangement should be presented as operating or as investing cash flows or as a combination of both; and
- whether cash outflows relating to construction services under a service concession arrangement should be presented as operating or as investing cash flows.

The Committee noted that the principle in IAS 7 *Statement of Cash Flows* is to classify the cash flows in a manner that is consistent with the activity that generated the cash flow. In the case of construction services in a service concession arrangement, the Committee noted that the activity is an operating activity, and hence it is more appropriate to present the cash flows as operating cash flows.

The Committee decided to recommend that the Board should propose an amendment, through Annual Improvements, to paragraph 14 of IAS 7 to clarify that an operator that provides construction or upgrade services in a service concession arrangement should present all of the cash flows relating to this activity as operating cash flows.

IFRS 3 *Business Combinations*—Definition of a business

At the September 2011 meeting, the Interpretations Committee observed that IFRS 3 and IAS 40 *Investment Property* are not mutually exclusive. An entity acquiring an investment property should consider whether it meets the definition of a business as defined in Appendix A of IFRS 3. The Committee noted that the guidance in paragraphs 11-14 of IAS 40 on ancillary services is intended to delineate an investment property from owner-occupied property, and not to delineate a business combination from the acquisition of a single asset.

To avoid confusion on the interrelation between IFRS 3 and IAS 40, the Committee decided at the November 2011 meeting to recommend that the Board should amend IAS 40 through Annual Improvements. This amendment would clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of a single asset or of a group of assets, or is a business combination within the scope of IFRS 3. The amendment would also clarify that this judgement is not based on paragraphs 7-15 of IAS 40 but on the guidance in IFRS 3. The amendment would also clarify that the guidance in paragraphs 7-15 of IAS 40 relates only to the judgement needed to distinguish an investment property from an owner-occupied property.

IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession arrangements*—selection of amortisation method

The Committee received a request to clarify the meaning of the term ‘consumption of the expected future economic benefits embodied in the asset’ in paragraphs 97 and 98 of IAS 38, *Intangible Assets*, when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. In the fact pattern sent by the submitter:

- (a) the tariff chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice so as not to burden consumers.

The Committee was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the economic reality of the underlying contractual terms; or

- (b) whether a time-based amortisation method is most appropriate, because it reflects the duration of the SCA and the fact that the entity received a licence to operate the infrastructure.

The Committee noted that the principle in IAS 38 is that an amortisation method should reflect the pattern of *consumption* of the expected future economic benefits and not the pattern of *generation* of expected future economic benefits. Examples of the types of amortisation methods that reflect this principle are provided in paragraph 98 of IAS 38.

In particular, the Committee noted that amortisation methods based on revenue are not an appropriate reflection of the pattern of consumption of the expected future economic benefits embodied in an intangible asset.

The Committee directed the staff to draft the proposed annual improvement that it will discuss at the meeting in January 2012.

IFRS 3 *Business Combinations*—scope of exception for joint ventures

At the September 2011 meeting, the Committee discussed whether paragraph 2(a) of IFRS 3, which excludes the formation of joint ventures from the scope of IFRS 3, should have been amended when IFRS 11 was issued to refer to joint arrangements. IFRS 11 had changed the use of the term ‘joint venture’ from having a general meaning that included jointly controlled operations, jointly controlled assets and jointly controlled entities, to mean a specific type of joint arrangement, which does not include joint operations.

The Committee noted that the scope exception should apply to the financial statements of a joint operation as well as to the financial statements of a joint venture, as defined in IFRS 11.

In discussing this issue, the Committee observed that there is a lack of clarity as to whether paragraph 2(a) of IFRS 3 is also intended to address the accounting in the financial statements of the joint venturer/joint operator. The Committee noted that the scope exception in paragraph 2(a) of IFRS 3 relates only to the accounting in the financial statements of the joint arrangement, and not to the accounting for the joint venturer’s/joint operator’s interest in the joint arrangement.

Consequently, the Committee decided to recommend that the Board should amend paragraph 2(a) of IFRS 3 through Annual Improvements to address all types of joint arrangements and to clarify that the scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

Issues with recommendations not to be added to Annual Improvements

The Interpretations Committee deliberated an issue for consideration within Annual Improvements. The Committee decided not to recommend that the Board should add the following issue to Annual Improvements.

IAS 7 *Statement of Cash Flows*—classification of cash payments for deferred and contingent consideration

In June 2011, the Interpretations Committee received a request for guidance on the classification of cash payments for deferred and contingent considerations under IAS 7 *Statement of Cash Flows*. The submitter asked the Committee to clarify:

- whether the settlement of contingent consideration should be classified as an operating, an investing or a financing activity in the statement of cash flows; and
- whether the subsequent settlement of deferred consideration for a business combination should be classified as an investing or a financing activity in the statement of cash flows.

The Committee discussed the issues in the September 2011 meeting. At that meeting, the Committee asked the staff to do further analysis on these issues with the aim of assessing whether the issues could be solved through the annual improvements process.

At the November 2011 meeting, the staff presented to the Committee possible amendments to IAS 7. The Committee noted that the matters involved are relevant to circumstances other than business

combinations and therefore the issue is too broad to be solved through the annual improvement process. Consequently, the Committee decided to propose that the Board should not add this issue to the Annual Improvements project.

IFRS Interpretations Committee work in progress

IAS 28 *Investments in Associates and Joint Ventures*—application of the equity method

The Interpretations Committee received a request to:

- a) correct an inconsistency between the requirements of paragraphs 2 and 11 of IAS 28 and IAS 1 *Presentation of Financial Statements* (revised 2007) regarding the description and application of the equity method. This inconsistency arose when IAS 1 made a consequential amendment to paragraph 11 of IAS 28 as part of the 2007 revision to IAS 1; and
- b) clarify the accounting for the investor's share of the other changes in the investee's net assets that are not the investor's share of the investee's profit or loss or other comprehensive income, or that are not distributions received. For example, clarify how to recognise the changes in net assets of an associate that result from the associate entering into a transaction with its subsidiary's non-controlling shareholders.

This issue was first discussed by the Committee in the March 2011 meeting and then again in the May 2011 meeting. At the May 2011 meeting, the Committee decided to recommend that this issue should be considered by the Board as part of a broader project to address IAS 28.

At the September 2011 Board meeting, the Board agreed with the Committee's recommendation that this issue could not be resolved through Annual Improvements. However, the Board asked if the Committee would further analyse the issue and recommend how the Board might address the issue in the short term.

At this meeting, the Committee agreed to reconsider this issue as a result of the Board's request. The Committee directed the staff to prepare an analysis to consider several fact patterns that illustrate the issue. The Committee asked the staff to attempt to develop a principle that might be useful to the Board in considering whether and how to amend IAS 28. The results of the staff analysis will be discussed by the Committee at a future meeting.

IAS 33 *Earnings per Share*—calculating earnings per share considering non-cumulative preference dividends

The Interpretations Committee received a request to address an issue related to the calculation of basic earnings per share ('EPS') under IAS 33. Specifically, the submitter requested that the Committee should clarify the period in which a dividend on non-cumulative preference shares, which are classified as equity ('preference dividend'), should result in an adjustment to the EPS calculation. The request explained that the word 'declared in respect of the period' in paragraph 14(a) of IAS 33 is not clear as to when the dividends should be taken into account in order to calculate EPS.

The Committee noted that, for non-cumulative preference shares with participation features and classified as equity instruments as described in the fact pattern of the submission, it is not relevant whether the dividends declared on the preference shares have been recognised in the financial statements for the purposes of calculating EPS. The Committee noted that paragraph A14 of IAS 33 would require the preference dividends in the fact pattern provided to be taken into account in the calculation of EPS, on the notional basis that all of the net profit or loss for the period was distributed to each class of equity instrument.

However, the Committee noted that there may be other fact patterns, for example when no participation feature exists or when there is a loss recorded for the period but a preference dividend is nevertheless declared, that may result in diversity in practice if the wording in paragraph 14(a) is unclear. The Committee therefore directed the staff to:

- perform outreach to determine if any current fact patterns exist where the guidance in paragraph 14(a) applies; and
- to perform an analysis of whether the wording in IAS 33 may need to be clarified.

IFRS 11 *Joint Arrangements*—acquisition of interest in a joint operation

The Committee received a request to clarify the application of IFRS 3 *Business Combinations* by:

- joint operators for the acquisition of interests in joint operations as defined in IFRS 11; and
- venturers for the acquisition of interests in jointly controlled operations or assets as specified in IAS 31 *Interests in Joint Ventures*

in circumstances where the activity of the joint operation or the activity of the jointly controlled operations or assets constitutes a business, as defined in IFRS .

The Committee noted that IFRS 11 will supersede IAS 31 from 2013 and therefore the focus of its discussion was with respect to IFRS 11. The Committee observed that uncertainty exists in accounting for the acquisition of an interest in a joint operation in circumstances where the activity of the joint operation constitutes a business as defined in IFRS 3, because of a lack of explicit guidance. As a result of the lack of explicit guidance, the Committee was concerned that diversity in practice will arise on the application of IFRS 11.

The Committee noted that the most appropriate approach to account for such transactions is to apply the relevant principles in IFRS 3, including measuring identifiable assets and liabilities at fair value with few exceptions and recognising the residual as goodwill. The Committee directed the staff to analyse and recommend whether such guidance should be in the form of an IFRIC Interpretation, an amendment to IFRS 3 or an amendment to IFRS 11. The staff will bring this analysis and a consequent recommendation to a future meeting.

IFRIC 15 *Agreements for the Construction of Real Estate*—meaning of continuous transfer of control in real estate transactions

The Interpretations Committee was asked to clarify the meaning of ‘continuous transfer’ referred to in IFRIC 15. The submission described the sale of multi-unit residential apartments off plan. This request has been discussed twice by the Committee. At the most recent discussions in May 2011, the Committee decided to defer further discussions on this matter until the criteria for the continuous transfer of goods and services are finalised as part of the revenue recognition project.

In June 2011 the Board decided to re-expose the revenue recognition proposals. This decision extended the timescale for the finalisation of that project. In addition, in July 2011 the Committee received a comment letter requesting further clarification of IFRIC 15. This request concerned protective rights and the effect of the entity’s entitlement to consideration from the customer, as articulated in the revenue recognition proposals, on the notion of continuous transfer in IFRIC 15.

As a result of the Board’s decision to re-expose the revenue recognition proposals and of the receipt of the second request for clarification, this topic was discussed by the Committee at this meeting.

The staff provided the Committee with two examples of real estate transactions in two jurisdictions, A and B (refer to agenda paper 5A for the details).

The Committee agreed that the facts are substantially different in jurisdictions A and B. However, although the Committee generally thought that continuous transfer was more likely to occur in the circumstances typical of jurisdiction A than it would in jurisdiction B, it thinks that there is a lack of clarity as to how to identify the key factors that are required to make that determination.

The Committee agreed to liaise with the staff to identify which characteristics would be persuasive in determining continuous transfer in an arrangement for the construction of real estate. After the staff receive this input, the issue will be referred to the Board for direction. The results of this process will be reported to the Committee in a future meeting.

The Committee also discussed a request for clarification of the unit of account in determining continuous transfer in the sale of residential apartments. The Committee agreed that the unit of account in such cases is the residential unit that is the subject of the individual sales agreement. The Committee noted that the unit of account is significant in the assessment of continuous transfer because the unit of account defines the asset being transferred.

IAS 12 *Income Taxes*—corporate wrapper

The Interpretations Committee received a request for clarification of the calculation of deferred tax in circumstances in which an entity holds a subsidiary that has a single asset within it. Specifically, the question asked was whether the tax base described in paragraph 11 of IAS 12 and that used to calculate the deferred tax should be the tax base of the (single) asset within the entity that holds it, or the tax base of the shares of the entity holding the asset. The submission explained that the question arises because it is common that the asset will be realised by selling the shares of the entity that holds the asset, rather than selling the asset on its own.

The Committee noted that paragraphs 15 and 24 of IAS 12 require that deferred taxes are recognised for all temporary differences associated with an asset except when certain conditions are satisfied. The Committee also noted that paragraph 39 of IAS 12 requires that deferred tax are recognised for all temporary differences that are associated with investments in a subsidiary that holds the underlying asset unless certain conditions are satisfied. The Committee also noted that paragraphs 7 and 38 of IAS 12 require that the tax bases used to calculate those temporary differences are to be those that relate to both the underlying asset and the investment in the shares of the entity that holds the underlying asset. As a result, the Committee noted that entities have to recognise deferred tax for temporary differences relating to underlying assets even if the entity does not expect to dispose of the asset separately from the entity that holds it. The only exception to the recognition of deferred tax would be in the circumstances in which the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply. However, the Committee observed that there is diversity in practice with respect to the recognition of the deferred tax for temporary differences relating to the underlying asset.

Consequently, the Committee withdrew the tentative agenda decision that it had reached in the September meeting and directed the staff to do further analysis on this issue, with the aim of assessing whether the issue could be clarified through an annual improvement. The staff will present further analysis at a future meeting.

IFRIC 12 *Service Concession Arrangements*—payments made by an operator in a service concession arrangement

The Interpretations Committee received a request to address an issue related to payments made by an operator in a service concession arrangement within the scope of IFRIC 12. Specifically, the submitter requested that the Committee should clarify in what circumstances (if any) certain contractual costs to be incurred by the operator under the service concession arrangement should:

- a) be recognised at the start of the concession as an asset with an obligation to make the related payments; or
- b) be treated as executory in nature, to be recognised over the term of the concession arrangement.

The Committee noted that when the payments are linked to the right of use of a tangible asset, judgement should be used to determine whether the operator obtains *control* of the right of use of the asset, because this would determine whether the arrangement is within the scope of IFRIC 12 or of IAS 17 *Leases*. For example, the Committee noted that when the right of use of a tangible asset is at the direction of the grantor, the operator does not control the right of use and the arrangement is therefore within the scope of IFRIC 12.

The Committee noted that if payments made by the operator to the grantor are within the scope of IFRIC 12, further analysis would need to be performed before the Committee could make a decision on how to proceed with the issue. The Committee therefore asked the staff to:

- analyse the arrangements and focus on whether the arrangements represented the acquisition of an asset;
- analyse what the accounting would be if the operator could cancel the arrangement without penalty;
- consider, if an asset is recognised, whether the asset could be classified as a financial asset based on the principle in IFRIC 12 regarding the financial asset model; and
- consider, if an asset is recognised, what amount the asset should initially be measured at and how any subsequent measurement would interact with IAS 39 *Financial Instruments: Recognition and Measurement* if the requirement to make payments was a financial liability, both in relation to fixed and variable payments.

Committee outstanding issues update

The Committee received a report on three new issues for consideration at a future meeting and one outstanding issue.

With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

Future IFRS Interpretations Committee meetings: 2012

The Committee's meetings are expected to take place in London, UK as follows:

- 17 and 18 January 2012
- 13 and 14 March 2012
- 15 and 16 May 2012
- 10 and 11 July 2012
- 18 and 19 September 2012
- 13 and 14 November 2012

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB website at www.ifrs.org before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website at

<http://www.ifrs.org/How+we+develop+Interpretations/Propose+an+agenda+item.htm>

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