AASB Staff Summary of IFRS Interpretations Committee Decisions
January 2013

At the IFRS IC meeting held on 22-23 January 2013, the Committee made some decisions in relation to contingent payments to selling shareholders, the accounting for the purchase of a NCI that includes non-cash items, and which Standard should apply in impairment testing investments in subsidiaries and joint ventures in the separate financial statements of a parent entity (see part A below). The Committee also made tentative decisions in relation to accounting for intra-group share based payment arrangements, the classification of cash equivalents, the accounting implications of applying IAS 10 when previously issued financial statements are reissued in connection with an offering document, and applying the concept of common control in separate financial statements (see part B below). The Committee also discussed issues considered for Annual Improvements and narrow scope amendment (see part C below), issues on its current agenda (see part D below) and issues that are work in progress (see part E below). The tables below provide our overview of key items discussed and decisions made. Please refer to the IFRIC Update (Agenda Paper 4.3) for a more detailed description of each issue discussed by the Committee, including a summary of the Committee's work in progress.

Part A: Summary of final agenda decisions

	Topic	Brief description	AASB staff comments
A1	IFRS 3 – contingent payments to selling shareholders in circumstances in which those selling shareholders become, or continue as, employees	The Committee was asked to clarify whether paragraph B55(a) of IFRS 3 is conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination of employment is remuneration for post-combination services and not part of the consideration for an acquisition. The Committee decided **not to add** this issue to its agenda at this time and to revisit the issue after completion of the PIR of FASB 141R *Business Combinations.*	**AASB staff view:** AASB staff **can accept** the Committee's final decision not to take this issue onto its agenda, even though we disagree with the reasons given for that decision. AASB staff would have preferred the issue to either be added to the Committee's agenda as an annual improvement or be considered as part of the post-implementation review of IFRS 3.
A2	IAS 27 and IFRS 10 – non-cash acquisition of a non-controlling interest	The Committee was asked to clarify the accounting for the purchase of a NCI by a controlling shareholder when the consideration includes non-cash items – specifically whether the difference between fair value and carrying amount of the consideration given should be recognised in equity or profit or loss. The Committee reaffirmed its previous tentative agenda	**AASB staff view**: AASB staff **agree** with the final agenda decision, and the Committee's reasons for that decision.

	Topic	Brief description	AASB staff comments
		decision **not to add** this issue to its agenda, because the existing IFRS requirements provide sufficient guidance. The difference between the carrying amount of NCI and the fair value of the consideration given should be recognised in equity under IAS 27. The difference between the fair value of the consideration given and the carrying amount of such consideration should be recognised in profit or loss in the controlling shareholders' consolidated financial statements in accordance with general de-recognition principles of IFRS.	
A3	IAS 36 or IAS 39 – testing investments in subsidiaries, joint ventures, and associates carried at cost for impairment.	The Committee was asked to clarify whether, in its separate financial statements, an entity should apply the provisions of IAS 36 or IAS 39 to test its investments in subsidiaries, joint ventures and associates carried at cost for impairment. The Committee decided **not to add** this issue to its agenda, because the existing IFRS requirements provide sufficient guidance. According to paragraphs 4 and 5 of IAS 36 and paragraph 2(a) of IAS 39, investments in subsidiaries, joint ventures, and associates accounted for at cost are within the scope of IAS 36, while investments in subsidiaries, joint ventures, and associates accounted for in accordance with IAS 39 are within the scope of that Standard. Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test its investments in subsidiaries, joint ventures, and associates that are carried at cost for impairment.	**AASB staff view**: AASB staff **agree** with the final agenda decision, and the Committee's reasons for that decision.

Part B: Summary of tentative agenda decisions

	Topic	Brief description	AASB staff comments
B1	IFRS 2 – intragroup recharges made in respect of share-based payments	This issue concerns a transaction where the parent company of an international group grants share-based awards to the employees of its subsidiaries. The parent enters into recharge agreements with its subsidiaries that require the subsidiaries to pay the parent the value of the share-based awards upon settlement of the awards by the parent. The Committee was asked to clarify whether the subsidiary's liability to its parent in respect of these charges should be recognised from the date of grant of the award or at the date of exercise of the award. However, given the potential breadth of the topic and the implications for other types of intercompany transactions together with absence of guidance about intercompany transactions within existing standards the Committee did not think it would be able to resolve this issue efficiently and therefore decided **not to add** this issue to its agenda.	**AASB staff view**: AASB staff think that this issue should be dealt with as part of a post-implementation review of IFRS 2 and therefore **agree** that the issue should not be added to the agenda at this time.
B2	IAS 7 – identification of cash equivalents	This issue concerns the basis of classification of financial assets as cash equivalents in accordance with IAS7. Specifically whether the classification should be based on the period to maturity from the acquisition date (current focus) or the balance sheet date. The Committee concluded that the existing requirements in IAS 7 are clear and would not expect significant diversity in practice to develop. Consequently, the Committee decided **not to add** this issue to its agenda.	**AASB staff view:** AASB staff **agree** with the tentative agenda decision.
B3	IAS 10 – reissuing	The Committee was asked to clarify the accounting	**AASB staff view:** AASB staff **agree** with the tentative

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	previously issued financial statements	implications of applying IAS 10 when previously issued financial statements are reissued in connection with an offering document in a jurisdiction that requires the reissued statements to reflect some specific but not all subsequent events or transactions. The Committee noted that if financial statements reflect transactions and events after the balance sheet date that IFRSs do not permit to be reflected or fail to reflect transactions or events after the balance sheet date that IFRSs require to be reflected then those financial statements are not in compliance with IFRSs. On that basis and because the issue arises in multiple jurisdictions each with particular securities laws and regulations the Committee decided not to add this issue to its agenda.	agenda decision.
B4	IAS 28 and IFRS 3 – associates and common control.	The Committee was asked to clarify whether it is appropriate to apply the scope exemption for business combinations under common control to the acquisition of an interest in an associate or joint venture under common control. The Committee noted that accounting for these transaction should be considered within the broader research project on accounting for business combinations under common control. Consequently the Committee decided **not to add** this issue onto its agenda.	**AASB staff view:** AASB staff **agree** with the tentative agenda decision.

Part C: Issues considered for Annual Improvements

	Topic	Brief description	AASB staff comments
Issues recommended for finalisation for the Standard to be developed from ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*			
C1	IFRS 2 – definition of vesting conditions.	The Committee recommended that the IASB should: • finalise the proposed amendment to IFRS 2 to clarify the definitions of vesting conditions by separately defining a performance condition and a service condition; and • in doing so modify the transition provisions for this amendment to reflect a prospective basis.	**AASB staff view:** AASB staff **agree** with the Committee's recommendation, it is consistent with the AASB's submission to the IASB on ED/2012/1 dated 27 August 2012.
C2	IAS 16 & IAS 38 – Revaluation method – proportionate restatement of accumulated depreciation	The Committee recommended that the Basis for Conclusions for IAS 16 and IAS 38 should be amended to reflect that accumulated depreciation/amortisation would not be able to be restated proportionately to the gross carrying amount in situations where the gross carrying amount and the carrying amount are revalued disproportionately from each other. This is regardless of whether a re-estimation of the residual value, the useful life or the depreciation method occurs prior to revaluation. Subject to wording changes the Committee recommended the IASB finalise the amendment.	**AASB staff view:** AASB staff **can accept** the Committee's recommendation as it is broadly consistent with the AASB's submission to the IASB on ED/2012/1 dated 27 August 2012. However, the AASB submission recommended omitting references to "observable market data" from paragraph 35(a) of IAS 16 and paragraph 80(a) of IAS 38. This is because the appropriateness of non-proportionate restatements of the gross amounts of assets is unrelated to whether observable market data exist. We note this change has not been made.
C3	IAS 24 Related Party Disclosure – Key management personnel	The Committee recommended that a proposed amendment to IAS 24 should confirm that: • a management entity providing KMP services to a reporting entity should not be identified as a related party solely as a consequence of the KMP services; • certain additional disclosures should be made about the nature and amount of the KMP services; and • the proposed Basis for Conclusions should explain why	**AASB staff view:** AASB staff **agree** with the Committee's recommendation, it is consistent with the AASB's submission to the IASB on ED/2012/1 dated 27 August 2012.

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		the reporting entity is not a related party of the management entity.	
Annual Improvements to IFRSs requiring further consideration			
C4	IFRS 3 – accounting for contingent consideration	The Committee proposed amendments to make clear the subsequent accounting for contingent consideration that arises in a business combination. However, the Committee noted that the proposed amendments would require fair value changes relating to own credit risk be recognised in OCI for financial liability contingent consideration but a different presentation for non-financial liability contingent consideration. The staff were asked to consider how fair value changes could be made more consistent.	**AASB staff view:** AASB staff **agree** that this issue should be considered as an improvement to IFRS and we will continue to monitor the Committee/IASB deliberations.
Issues recommended for inclusion in the next cycle for Annual Improvements			
C5	IFRS 7 –Transfers of Financial Assets	The issue is whether servicing rights and obligations are continuing involvement for the purpose of the transfer disclosures. The Committee recommended that the IASB consider clarifying the requirements for continuing involvement in IFRS 7.	**AASB staff view:** AASB staff **agree** with the Committee's recommendation and we will continue to monitor the Committee/IASB deliberations.
Issues recommended for narrow scope amendment			
C6	IAS 19—Measurement of the net defined benefit obligation (DBO) for post employment benefit plans with employee contributions	The issue concerns the classification of employee benefits that involve employee contributions to a defined benefit plan (i.e. whether such contributions reduce short-term employee benefits cost or whether they reduce post-employment benefits cost) by considering some examples where an employee is required to contribute to a defined benefit plan.	**AASB staff view:** Paragraph 93 applies to contributions from employees or third parties 'set out in the formal terms of the plan'. AASB staff are not aware of there being any issues in relation to paragraph 93. However, we need to monitor closely any change the IASB proposes to avoid inadvertent impacts in relation to the Australian environment for example in respect of the superannuation

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		The Committee observed that the distinction between discretionary contributions and contributions that form part of the formal terms of the plan is not necessarily clear and, therefore, the scope of employee contributions that are subject to paragraph 93 of IAS 19 (2011) is not clear. The Committee observed that some employee contributions, such as contributions related to service rendered in the same period might be classified as a reduction of short term employee benefits and would therefore not be within the scope of paragraph 93 of IAS 19 (2011). The Committee noted that the wording in paragraph 93 is not clear and decided to ask the IASB to consider a narrow scope amendment to reflect the observations made at the meeting.	guarantee regime.
C7	IAS 39 – Novation of derivatives under EMIR legislation	The Committee considered a request to clarify whether an entity is required to discontinue hedge accounting in a circumstance where the hedging instrument is novated from one counterparty to another following the introduction of new regulations (EMIR). IAS 39 requires an entity to discontinue hedge accounting even when the OTC derivative designated as a hedging instrument is novated to a central counterparty. The Committee decided to recommend that the IASB make a narrow scope amendment to IAS 39 to permit the continuation of hedge accounting subject to certain conditions.	**AASB staff view:** AASB staff **agree** with the Committee's recommendation and we will continue to monitor the Committee/IASB deliberations.

Part D: IFRS IC Current agenda

	Topic	Brief description	AASB staff comments
D1	IAS 1 – Disclosures about going concern	The Committee were asked to clarify the requirement in IAS 1 *Presentation of Financial Statements* to disclose uncertainties about the entity's ability to continue as a going concern; specifically, when to disclose and what to disclose about these uncertainties. At its November meeting the Committee **tentatively agreed** that amendment to IAS 1: • should retain the current guidance relating to going concern; • provide guidance on how to identify material uncertainties; and • contain requirements about what to disclose about material uncertainties. The Interpretations Committee recommended that these proposals be presented to the IASB together with a question about the alignment of going concern assessment time frame in IAS 1 with the time frame set out in local auditing requirements.	**AASB staff view:** AASB staff **agree** with the proposed tentative amendments. AASB staff consider the basis for preparation, the identification of material uncertainties and disclosure are clear. AASB staff **agree** with Committee's proposal to ask the IASB about the alignment of going concern assessment time frame in IAS 1 with the time frame set out in local auditing requirements.
D2	IAS 16, IAS 38 and IFRIC 12 – Variable payments for the separate acquisition of property plant and equipment (PPE) and intangible assets	The initial agenda request questioned under what circumstances (if any) contractual payments to be made by an operator under a service concession arrangement within the scope of IFRIC 12 should: • be included in the measurement of an asset and liability at the start of the concession; or • be accounted for as executory in nature, to be recognised as an expense over the term of the concession arrangement. At its November meeting the Interpretations Committee	**AASB staff view:** AASB staff **agree** with the Committee's decision to proceed with amendments to IFRIC 12 and to IASs 16, 38 and 39.

	Topic	Brief description	AASB staff comments
		tentatively agreed that the fair value of those variable payments should be included in the initial measurement of the asset at purchase date. At the January meeting in discussing subsequent accounting for variable payments, the Committee agreed that adjustments to the liability other than finance costs should be recognised as a corresponding adjustment to the cost of the asset acquired in some specific circumstances. The Committee **decided to proceed** with amendments to IFRIC 12 and to IASs 16, 38 and 39.	
D3	IAS 32 – Put options written on non-controlling interests	The Committee considered comments on its draft Interpretation which included proposals to clarify that a put option written over a subsidiary's equity shares results in a financial liability in the parent's consolidated financial statements which is subsequently re measured through profit or loss. The Committee noted that the IASB should consider whether NCI puts and NCI forwards should be accounted for differently.	**AASB staff view:** As noted in the AASB's submission on the draft Interpretation dated 1 October 2012, the AASB staff supported the proposals but expressed concerns about the narrow scope of the draft Interpretation and encourage the IASB to address classification of financial instruments more comprehensively. We have since received an outreach request on whether diversity exists in practice and we are in the process of responding.
D4	IAS 37 – Interpretation on levies	The Committee considered comments received on Draft Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*. The Committee made several tentative decisions at this meeting: • levies (with two exceptions) should be defined as transfers of resources imposed by governments on entities in accordance with laws and regulations; and • the final Interpretation should address the accounting	The AASB commented on the proposals to the Committee in August 2012[1]. **AASB staff view:** AASB staff **agree** with the tentative decisions made by the IFRS IC. AASB staff note that the IFRS IC tentatively decided in November not to address the accounting for liabilities arising from emission trading schemes.

1 http://www.aasb.gov.au/admin/file/content106/c2/AASB_letter_to_IASB_on_DI_2012_1_FINAL.pdf

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		for the liability to pay a levy but should refer to other Standards to decide whether levy costs are recognised as assets or expenses; • the final Interpretation should address the accounting for levies with minimum thresholds; and • the accounting for levies with minimum thresholds should be consistent with the principles established in the consensus of the draft Interpretation i.e the obligating event is the activity that triggers the payment of the levy, as identified by the legislation; • for a levy that is triggered if a minimum activity threshold is achieved, the obligating event is the achievement of the threshold; and • the same recognition principles should be applied in the interim financial statements as are applied in the annual financial statements, as stated in IAS 34 *Interim Financial Reporting*.	

Part E: Interpretations Committee work in progress

	Topic	Brief description	AASB staff comments
E1	IAS 19 – Actuarial assumptions: discount rate	Whether corporate bonds with a rating lower than "AA" can be considered to be high quality corporate bonds. The Committee observed that IAS 19 does not specify how to determine the market yields on HQC bonds, and what grade of bonds should be designated as high quality. Therefore, an entity would need to use judgment (applying the guidance in paragraphs 84 and 85 of IAS 19 (2011)) in determining the current market yields on HQC bonds. The Committee discussed the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to an entity's policy for determining the discount rate to be applied. At the January meeting discussed whether the HQCB rate should be determined at the Eurozone level or the country level. The Committee expressed support for the country level however for a liability expressed in euro the deepness of the market of HQCB should be assessed at the Eurozone level. The Interpretations Committee requested that the staff consult with the IASB on several matters in relation to this issue.	**AASB staff view:** AASB staff acknowledge the concerns over IAS 19 discount rate requirements (particularly in the current economic climate), however, we are concerned that the proposed IFRS IC guidance would be a change to IAS 19 that is not being made through a full due process. Staff **agree** that the IFRS IC now progress consultation with the IASB.
E2	IAS 39 – Presentation of financial instruments with negative yield	In September 2012, the IFRS Interpretations Committee discussed the ramifications of the economic phenomenon of negative interest rates for the presentation of income and expenses in the statement of comprehensive income. The Interpretations Committee considered the situation where, against the backdrop of the economic crisis, the demand of investors for 'safe harbour' assets has increased to a degree that the yield on some assets (on some of the remaining high quality government bonds), being the overall effective interest rate, has turned negative.	AASB staff do not have experience in respect of financial instruments with negative interest rates, therefore we cannot comment on the circumstances in which they may arise. That said, AASB staff **agree** that 'negative interest' does not appear to meet the definition of revenue, or interest revenue in IAS 18, as it is not an inflow of an economic benefit nor a charge for the use of cash or cash equivalents. We also **agree** that 'negative interest' does not appear to meet the requirements for offsetting within revenue. AASB staff **support** the IASB staff view that

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		The Committee decided **not to finalise** the tentative agenda decision until the IASB has completed its redeliberations on the ED *Classification and Measurement Limited Amendments to IFRS9.*	such amounts could be appropriately represented as an expense (other than an interest expense) in respect of a financial asset, and revenue (other than interest revenue) in respect of a financial liability. Given that there has not been a formal request on this topic, and this phenomenon is expected to be rare in practice, AASB staff **support** the Committee's decision to defer consideration of the issue..
E3	IAS 40 – Accounting for a structure that appears to lack the physical characteristics of a building	At its September 2012 meeting, the Committee considered a request to clarify whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment or as investment property. The request included a specific fact pattern where an entity owns telecommunication towers and receives rent revenue in exchange for leasing spaces in the towers to telecommunication operators to which they attach their own devices. The entity provides certain basic services to the telecommunication operators such as maintenance services. Outreach revealed a lack of diversity in practice (where all respondents who had similar transactions in their jurisdiction had accounted for the telecommunications tower as property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*). The Committee **agreed to defer** this issue until either the IASB completes its deliberations on the definition of property in the context of the leasing proposals	**AASB staff view:** AASB staff **agree** with the Committee's recommendation. For information, below is the AASB staff comment to the Committee staff in response to their outreach request dated August 2012: Currently in Australia entities generally have sole use of a telecommunication tower. These towers are generally accounted for as plant and equipment, not as land and buildings. For those towers that are used by third parties, generally the agreements include a significant service component (e.g. to provide broadcasting services). They are not considered to be held for capital return. We are not aware of any diversity in practice in Australia, although one respondent would not have any issue if telecommunication towers were treated as investment property.