

IFRIC Update

From the IFRS Interpretations Committee



January 2013

Welcome to the IFRIC Update

IFRIC Update is the newsletter of the IFRS Interpretations Committee (the Interpretations Committee). 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 **22 and 23 January 2013**, when it discussed:

- the current agenda:
 - IAS 1 *Presentation of Financial Statements*—Disclosure requirements about assessment of going concern;
 - IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements*—Variable payments for the separate acquisition of PPE and intangible assets;
 - IAS 32 *Financial Instruments: Presentation*—Put options written on non-controlling interests; and
 - IAS 37 *Provisions, Contingent liabilities and Contingent Assets*—Interpretation on Levies;
- Interpretations Committee agenda decisions;
- Interpretations Committee tentative agenda decisions;
- Issues considered for Annual Improvements;
- Issues recommended for narrow scope amendment and
- Interpretations Committee work in progress.

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Future IFRS Interpretations Committee meetings

The next meetings are:
12 and 13 March 2013
14 and 15 May 2013
16 and 17 July 2013
10 and 11 September 2013
12 and 13 November 2013

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB [website](http://www.ifrs.org) before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website [here](http://www.ifrs.org).

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Current agenda

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

IAS 1 *Presentation of Financial Statements*—Disclosures requirements about assessment of going concern

The Interpretations Committee received a request for clarification on the disclosure requirements about the assessment of going concern in IAS 1 *Presentation of Financial Statements*. This Standard requires that when management is aware of material uncertainties about the entity's ability to continue as a going concern, those uncertainties shall be disclosed. The submitter thinks that guidance about these disclosures is unclear and asked:

- a. when an entity should be required to disclose this information,

b. what the objective of that disclosure is, and

c. what disclosures should be required.

At the November 2012 meeting the Interpretations Committee requested that proposals for a narrow-scope amendment to IAS 1 should be prepared to provide further guidance on this topic.

At this meeting the Interpretations Committee was presented with proposed amendments to IAS 1 that:

a. retain, substantially unchanged, the guidance relating to 'going concern' as a basis for the preparation of the financial statements,

b. provide guidance on how to identify material uncertainties, and

c. contain requirements about what to disclose about material uncertainties.

The Interpretations Committee discussed the proposed amendment and what level of detail should be included within the amendment. They agreed that the proposed amendment should be exposed with examples of both the types of conditions that indicate when material uncertainties arise and the types of disclosures that an entity should give, but that a question should be included in the Exposure Draft to ask respondents whether or not that level of detail was helpful.

At this meeting the Interpretations Committee also decided to propose that a question be included in the Exposure Draft about whether the proposed amendments should include an alignment of the going concern assessment time frame in IAS 1 with the time frame set out in many local auditing requirements.

The Interpretations Committee recommended these revised proposals be presented to the IASB for consideration.

IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IFRIC 12 Service Concession Arrangements—Variable payments for the separate acquisition of PPE and intangible assets

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

a. be included in the measurement of an asset and liability at the start of the concession; or

b. be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement).

The Interpretations Committee noted that the issue of variable concession fees is linked to the broader issue of variable payments for the separate acquisition of PPE and intangible assets outside of a business combination. This broader issue was previously discussed by the Interpretations Committee in 2011, but with no conclusion.

At the November 2012 meeting, the Interpretations Committee discussed the initial accounting for variable payments. The Interpretations Committee could not reach a consensus on whether the variable payments that are dependent on the purchaser's future activity should be excluded from the initial measurement of the liability until that activity is performed. In all other cases (ie where the variable payments are not dependent on the purchaser's future activity) the Interpretations Committee tentatively

agreed that the fair value of those variable payments should be included in the initial measurement of the liability on the date of purchase of the asset.

The Interpretations Committee also discussed the subsequent accounting for variable payments. The Interpretations Committee tentatively 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.

At this meeting, the Interpretations Committee continued its discussions about the subsequent accounting for variable payments. The Interpretations Committee reviewed some examples that illustrate cases in which the cost of the asset would be adjusted. The Interpretations Committee tentatively decided to recommend to the IASB that it should amend IASs 16, 38 and 39, to require that the adjustment of the carrying amount of a financial liability resulting from the application of paragraph AG8 is recognised as a corresponding adjustment to the cost of the asset to the extent that IASs 16 or 38 requires so. As a result, the AG8 adjustment would be recognised as a corresponding adjustment to the cost of the asset purchased:

- a. entirely when the adjustment is a change of estimate of a liability initially recognised upon the acquisition of the asset; and
- b. to the extent that it relates to future economic benefits to be derived from the asset when the adjustment results from the initial recognition of a liability to make variable payments that was not previously recognised as a liability upon the acquisition of the asset.

The Interpretations Committee also decided to proceed with the proposed amendments to IFRIC 12 that were previously discussed during the March and May 2012 Interpretations Committee meetings.

The staff will prepare a paper to be presented at a future meeting that proposes amendments to IASs 16, 38 and 39 and IFRIC 12 as part of a narrow-scope project.

IAS 32 *Financial Instruments: Presentation*—Put options written on non-controlling interests

In May 2012 the Interpretations Committee published a draft interpretation on the accounting for put options written on non-controlling interests in the parent's consolidated financial statements (NCI put). The comment period ended on 1 October 2012.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft Interpretation. The Interpretations Committee agreed that, if the proposals in the draft Interpretation were finalised, the final Interpretation should apply:

- a. in the parent's consolidated financial statements, to put options and forward contracts that obligate an entity in the group to purchase shares of a subsidiary that are held by a non-controlling-interest shareholder for cash or another financial asset ('NCI puts and NCI forwards'); and
- b. retrospectively.

The Interpretations Committee also reaffirmed that the financial liability that is recognised for an NCI put must be remeasured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, which require that changes in the measurement are recognised in profit or loss. The Interpretations Committee therefore acknowledged that the draft consensus published in May 2012 is the correct interpretation of existing Standards. The Interpretations Committee expressed the view that better information would be provided if NCI puts were measured on a net basis at fair value, consistently with derivatives that are within the scope of IAS 39 and IFRS 9.

The Interpretations Committee also noted that many respondents to the draft Interpretation think that either the Interpretations Committee or the IASB should address the accounting for NCI puts—or all

derivatives written on an entity's own equity—more comprehensively. Those respondents said that many aspects of the accounting for those contracts have resulted in diversity in practice. Moreover, some of the respondents believe that the requirements, which are to measure particular derivatives written on an entity's own equity instruments on a gross basis at the present value of the redemption amount, do not result in useful information.

Consequently, before finalising the draft Interpretation, the Interpretations Committee decided to ask the IASB to reconsider the requirements in paragraph 23 of IAS 32 *Financial Instruments: Presentation* for put options and forward contracts written on an entity's own equity. The Interpretations Committee noted that such work should consider whether NCI puts and NCI forwards should be accounted for differently from other derivatives written on an entity's own equity.

The Interpretations Committee directed the staff to report its views as well as the feedback received in the comment letters to the IASB and ask the IASB how it would like to proceed.

IAS 37 *Provisions, Contingent liabilities and Contingent Assets*—Interpretation on levies

In May 2012, the Interpretations Committee published a draft Interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The comment period ended on 5 September 2012.

At the November 2012 meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft Interpretation. The Interpretations Committee tentatively decided that the final Interpretation should:

- a. address the accounting for levies that are within the scope of IAS 37 and levies whose timing and amount is certain;
- b. not address the accounting for liabilities arising from emissions trading schemes; and
- c. confirm the guidance provided in the consensus of the draft Interpretation about the accounting for the liability to pay a levy.

At this meeting, the Interpretations Committee continued its discussions and tentatively decided that:

- a. levies should be defined as transfers of resources imposed by governments on entities in accordance with laws and/or regulations, other than:
 - I. levies that are within the scope of other Standards (such as income taxes within the scope of IAS 12 *Income Taxes*); and
 - II. fines or other penalties imposed for breaches of the laws and/or regulations.
- b. the final Interpretation should address the accounting for the liability to pay a levy but should refer to other Standards to decide whether levy costs are recognised as assets or expenses;
- c. the final Interpretation should address the accounting for levies with minimum thresholds. The Interpretations Committee tentatively decided that the accounting for levies with minimum thresholds should be consistent with the principles established in the consensus of the draft Interpretation. In particular, according to paragraph 7 of the draft Interpretation, the obligating event is the activity that triggers the payment of the levy, as identified by the legislation. The Interpretations Committee tentatively concluded that for a levy that is triggered if a minimum activity threshold is achieved in the current period (such as a minimum amount of revenues, sales or outputs produced), the obligating event that gives rise to a liability to pay a levy is the achievement of the minimum activity threshold.

- d. 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*.

Some Interpretations Committee members asked the IASB to consider a comprehensive review of the principles in IAS 34, in particular to confirm that the 'discrete' approach is preferable to the 'integral' approach and to consider the consistency of the guidance within the Standard.

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Interpretations Committee agenda decisions

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

IFRS 3 Business Combinations—Continuing employment

The Interpretations Committee received a request for guidance on the accounting in accordance with IFRS 3 *Business Combinations* for contingent payments to selling shareholders in circumstances in which those selling shareholders become, or continue as, employees. The submitter asked the Interpretations Committee to clarify whether paragraph B55(a) of IFRS 3 is conclusive in determining that payments to an employee that are forfeited upon termination of employment are remuneration for post-combination services and not part of the consideration for an acquisition. The question arose because the submitter asserted that paragraph B55 introduces subparagraphs (a)–(h) as indicators, but paragraph B55(a) uses conclusive language stating that the arrangement described is remuneration for post-combination services.

The Interpretations Committee observed that an arrangement in which contingent payments are automatically forfeited if employment terminates would lead to a conclusion that the arrangement is compensation for post-combination services rather than additional consideration for an acquisition, unless the service condition is not substantive. The Interpretations Committee reached this conclusion on the basis of the conclusive language used in paragraph B55(a) of IFRS 3.

The Interpretations Committee also noted that IFRS 3 is part of the joint effort by the IASB and the US-based Financial Accounting Standards Board (FASB) to promote the convergence of accounting standards. The Interpretations Committee was advised that the Post-implementation Review of FASB Statement No. 141R *Business Combinations* is in progress, and that the opportunity to co-ordinate any work on this issue with the FASB would arise after the conclusion of the Post-implementation Review of FASB Statement No. 141R.

Consequently, the Interpretations Committee decided not to add this issue to its agenda at this time and to revisit this issue after completion of the Post-implementation Review of FASB Statement No. 141R.

IAS 27 Consolidated and Separate Financial Statements and IFRS 10 Consolidated Financial Statements—Non-cash acquisition of a non-controlling interest by a controlling shareholder in the consolidated financial statements

The Interpretations Committee received a request for guidance on the accounting for the purchase of a non-controlling interest (NCI) by the controlling shareholder when the consideration includes non-cash items. More specifically, the submitter asked the Interpretations Committee to clarify whether the difference between the fair value of the consideration given and the carrying amount of such consideration should be recognised in equity or in profit or loss. The submitter asserted that, according to paragraph 31 of IAS 27, the difference described should be recognised in equity, whereas applying

IFRIC 17 *Distributions of Non-cash Assets to Owners* by analogy the difference should be recognised in profit or loss. The submitter asked the Interpretations Committee to resolve this apparent conflict between IAS 27 and IFRIC 17.

The Interpretations Committee noted that paragraph 31 of IAS 27 deals solely with the difference between the carrying amount of NCI and the fair value of the consideration given; this difference is required to be recognised in equity. This paragraph does not deal with the difference between the fair value of the consideration given and the carrying amount of such consideration. The difference between the fair value of the assets transferred and their carrying amount arises from the derecognition of those assets. IFRSs generally require an entity to recognise, in profit or loss, any gain or loss arising from the derecognition of an asset.

Consequently, the Interpretations Committee concluded that in the light of the existing IFRS requirements, an interpretation or an amendment to Standards was not necessary and consequently decided not to add this issue to its agenda.

IAS 28 *Investment in Associates*—Impairment of investments in associates in separate financial statements

In the July 2012 meeting, the Interpretations Committee received an update on the issues that have been referred to the IASB and that have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue about the impairment of investments in associates in separate financial statements. More specifically, the issue is whether, in its separate financial statements, an entity should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, joint ventures, and associates carried at cost for impairment.

The Interpretations Committee noted that according to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* an entity, in its separate financial statements, shall account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with IAS 39.

The Interpretations Committee also noted that according to paragraphs 4 and 5 of IAS 36 and paragraph 2(a) of IAS 39, investments in subsidiaries, joint ventures, and associates that are not accounted for in accordance with IAS 39 are within the scope of IAS 36 for impairment purposes. Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment its investments in subsidiaries, joint ventures, and associates that are carried at cost in accordance with paragraph 38(a) of IAS 27 (2008) or paragraph 10(a) of IAS 27 *Separate Financial Statements* (2011).

The Interpretations Committee concluded that in the light of the existing IFRS requirements an interpretation or an amendment to IFRSs was not necessary and consequently decided not to add this issue to its agenda.

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Interpretations Committee tentative agenda decisions

The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Interpretations Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in May 2013. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by 4 April 2013 to ifric@ifrs.org. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IFRS 2 *Share-based Payment*—Timing of the recognition of intercompany charges

The Interpretations Committee received a request for clarification about IFRS 2 *Share-based Payment*

relating to intragroup recharges made in respect of share-based payments.

In the submitter's example, the parent company of an international group grants share-based awards to the employees of its subsidiaries. The obligation to settle these awards is the parent's. The awards are based on the employee's service to the subsidiary. The subsidiary and the parent both recognise the share-based transaction in accordance with IFRS 2—typically over the vesting period of the awards. The parent has also entered 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 submitter asked 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.

Outreach conducted suggests that there is diversity in practice in the recognition of these liabilities. Some respondents view the recharge and the share-based payments as linked and recognise both from the date of grant over the vesting period. Others think that the recharge is a separate transaction recognised by analogy with liabilities, the distribution of equity or as an executory contract.

When discussing accounting for the intercompany recharge transaction, the Interpretations Committee was concerned at the breadth of the topic. It thought that resolving this issue would require it to address the accounting for intragroup payment arrangements generally in the context of common control and that any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. In the absence of guidance about intercompany transactions within existing Standards and the *Conceptual Framework*, they did not think that they would be able to resolve this issue efficiently. For that reason, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 7 *Statement of Cash Flows*—identification of cash equivalents

The Interpretations Committee received a request about the basis of classification of financial assets as cash equivalents in accordance with IAS 7. More specifically, the submitter thinks that the classification of investments as cash equivalents on the basis of the remaining period to maturity as at the balance sheet date would lead to a more consistent classification rather than the current focus on the investment's maturity from its acquisition date.

The Interpretations Committee noted that, on the basis of paragraph 7 of IAS 7, financial assets held as cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This paragraph further states that for an investment to be held for the 'short term', it will normally have a maturity of three months or less from the date of acquisition.

The IFRS Interpretations Committee observed that this three-month criterion in paragraph 7 of IAS 7 promotes consistency between entities in the classification of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear.

On the basis of the above, the Interpretations Committee determined that in the light of the existing IFRS guidance, an interpretation or an amendment to Standards was not necessary and it did not expect significant diversity in practice to develop regarding their application.

Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 10 *Events after the Reporting Period*—Reissuing previously issued Financial Statements

The Interpretations Committee was asked to clarify the accounting implications of applying IAS 10 *Events after the Reporting Period* when previously issued financial statements are reissued in connection with an offering document. The issue arose in jurisdictions in which securities laws and regulatory practices require an entity to reissue its previously issued annual financial statements in connection with an offering document, when the most recently filed interim financial statements reflect matters that are accounted for retrospectively under the applicable accounting standards. In these jurisdictions, securities law and regulatory practices do not require the entity, in its reissued financial statements, to recognise events or transactions that occur between the time the financial statements

were first issued and the time the financial statements are reissued, unless the adjustment is required by national regulation; instead security and regulatory practices require the entity to recognise in its reissued financial statements only those adjustments that would ordinarily be made to the comparatives in the following year's financial statements. These adjustments would include, for example, adjustments for changes in accounting policy that are applied retrospectively, but would not include changes in accounting estimates. This approach is called 'dual dating'. The submitter asked the Interpretations Committee to clarify whether IAS 10 permits only one date of authorisation for issue (ie 'dual dating' is not permitted) when considered within the context of reissuing previously issued financial statements in connection with an offering document.

The Interpretations Committee noted that the scope of IAS 10 is the accounting for, and disclosure of, events after the reporting period and that the objective of this Standard is to prescribe:

- a. when an entity should adjust its financial statements for events after the reporting period; and
- b. the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The Interpretations Committee also noted that financial statements prepared in accordance with IFRSs should reflect all adjusting and non-adjusting events up to the date that the financial statements were authorised for issue. Consequently, 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 the basis of the above and because the issue arises in multiple jurisdictions, each with particular securities laws and regulations, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 28 *Investments in Associates and Joint Ventures* and IFRS 3 *Business Combination*— Associates and common control

In October 2012, the Interpretations Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for business combinations under common control, which is set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control.

The Interpretations Committee also observed that paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

The Interpretations Committee, notwithstanding the above observations, noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control, which the IASB added as one of the priority research projects to its future agenda in May 2012. The Interpretations Committee was specifically concerned with the fact that there is diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.

In the light of the Interpretations Committee's concerns about the broader issues that relate to accounting for business combinations under common control, the Interpretations Committee [decided] not to take this issue onto its agenda.

Issue considered for Annual Improvements

The Interpretations Committee assists the IASB in Annual Improvements by reviewing proposed improvements to Standards and making recommendations to the IASB. Specifically, the Interpretations Committee's involvement includes reviewing and deliberating issues for their inclusion in future Exposure Drafts of proposed Annual Improvements to IFRSs and deliberating the comments received on the Exposure Drafts. When the Interpretations 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 IASB for discussion, in a public meeting, before being finalised. Approved Annual Improvements to IFRSs (including Exposure Drafts and final Standards) are issued by the IASB.

Annual Improvements to IFRSs 2010–2012 Cycle—comment letter analysis

The Interpretations Committee deliberated upon the comments received on five proposed amendments that had been included in the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* published in May 2012.

The Interpretations Committee will not deliberate upon the comments received on the proposed amendment to IAS 36 *Impairment of Assets—Harmonisation of disclosures for value in use and fair value less costs of disposal*, because of the IASB's decision to incorporate it into the amendment that was proposed in the Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets* (Proposed amendments to IAS 36) that was published on 18 January 2013.

Annual Improvements recommended for finalisation

The Interpretations Committee recommended the following proposed amendments for finalisation and submitted these proposed amendments to the IASB for approval at a future IASB meeting. Subject to that approval, the IASB will include these amendments in the *Annual Improvements to IFRSs 2010–2012 Cycle*, which is expected to be issued in the second quarter of 2013. The two proposed amendments recommended for finalisation are:

IFRS 2 *Share-based Payment*—Definition of 'vesting conditions'

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to clarify the definition of 'vesting conditions' in Appendix A of IFRS 2 (by separately defining a 'performance condition' and a 'service condition') subject to some editorial comments.

In clarifying the definitions of 'performance condition' and 'service condition', the Interpretations Committee addressed the concerns that have been raised about the proposed definitions. Having considered comments received, the Interpretations Committee further recommended to the IASB that:

- a. a performance target can be set by reference to the price (or value) of another entity included within the group;
- b. a performance target that refers to a longer period than the required service period does not constitute a performance condition;
- c. the specified period of service that the counterparty is required to complete can be either implicit or explicit;
- d. management does not need to prove the influence between the employee and the performance target;
- e. a share market index target is a non-vesting condition;

- f. the definition of 'performance condition' should indicate that it includes a 'market condition';
- g. a definition of 'non-vesting condition' is not needed; and
- h. the employee's failure to complete a required service period is considered to be a failure to satisfy a service condition.

The Interpretations Committee further recommended to the IASB that it modifies the transition provisions for this amendment and requires an entity to apply such amendment on a prospective basis in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IAS 16 *Property, Plant and Equipment* & IAS 38 *Intangible Assets*—Revaluation method—proportionate restatement of accumulated depreciation

The Interpretations Committee agreed in principle that the IASB should finalise the proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to clarify how a revaluation of an item of property plant and equipment or an intangible asset should be presented. However, the Interpretations Committee was concerned with the wording of the proposed amendments as currently drafted. Specifically, it agreed that the amendment should not introduce new terminology such as the term 'net carrying amount'.

The Interpretations Committee agreed with the following staff recommendations:

- a. to make clear in the Basis for Conclusions of IASs 16 and 38 to reflect that accumulated depreciation/amortisation would not be able to be restated proportionately to the gross carrying amount in situations in which both 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.
- b. the transition requirements should be changed so that:
 - I. the proposed amendments are required to be applied to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the annual period immediately preceding that date; and
 - II. that an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis and explain that basis.

The Interpretations Committee asked the staff to revise the wording of the proposed amendments to reflect its concerns about the introduction of new terminologies. Subject to these wording changes the Interpretations Committee recommended that the IASB should finalise the amendment.

IAS 24 *Related Party Disclosure*—Key management personnel

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to clarify the related party disclosures required when key management personnel (KMP) services are provided to the reporting entity. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that:

- a. The management entity providing KMP services should be identified as a related party of the reporting entity, but that the reporting entity should not be a related party of the management entity solely as a consequence of the provision of KMP services.
- b. An exemption should be granted from the detailed disclosure requirements in paragraph 17 in respect of KMP services provided by the management entity.
- c. Amounts payable to a management entity in respect of KMP services should be separately disclosed.

Having considered the comments received, the Interpretations Committee further recommended to the IASB that:

- a. it should require the disclosure of additional information about the nature of the KMP services provided; and
- b. the proposed Basis for Conclusions should be extended to explain why the reporting entity is not a related party of the management entity.

Annual Improvements requiring further consideration

IFRS 3 *Business Combinations*—Accounting for contingent consideration in a business combination

The Interpretations Committee discussed the comments received on the annual improvement proposals to clarify the subsequent accounting for contingent consideration that arises in a business combination. The Interpretations Committee agreed with the staff recommendations that:

- a. the wording of the requirement on non-equity contingent consideration subsequent measurement in paragraph 58(b) of IFRS 3 should be amended to ensure that it does not imply that contingent consideration can only be a financial instrument;
- b. that the amendment proposed in the Exposure Draft to IFRS 9 paragraph 4.1.2 should be deleted; and
- c. the wording of the transition and effective date paragraph should be amended to ensure that the proposed amendment to IFRS 3 could not be applied without also applying IFRS 9.

The Interpretations Committee noted that the proposed amendments would require the fair value changes relating to own credit risk be recognised in other comprehensive income for financial liability contingent consideration. However, the Interpretations Committee was concerned that the proposed requirements for the subsequent measurement of non-financial liability contingent consideration would not require the same presentation of the own credit risk element of the change in fair value measurement.

The Interpretations Committee requested that the staff consider how the accounting for the subsequent change in the fair value of financial and non-financial liability contingent consideration could be made more consistent. The staff will bring its analysis and recommendations on this matter to the next Interpretations Committee meeting.

Annual Improvements not recommended for finalisation

IAS 1 *Presentation of Financial Statements*—Current/non-current classification of

liabilities

The Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* proposed to amend IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility *with the same lender, on the same or similar terms*.

After considering the comments received from the respondents, the Interpretations Committee decided to recommend to the IASB that it should not confirm the proposed amendment to IAS 1 in its current form.

The Interpretations Committee noted that the proposed amendment proposes to tie the classification requirements of financial liabilities in IAS 1 to the derecognition requirements of financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*. The Interpretations Committee noted that, in that case, the assessment of whether the terms are the same or similar would include a quantitative analysis based on the so-called '10 per cent test'. The Interpretations Committee thinks that this test is not appropriate for classification purposes and would raise practical issues. The Interpretations Committee decided to recommend to the IASB that this issue should be addressed through a narrow-scope project to amend IAS 1 rather than to finalise the proposed annual improvement.

Issues considered for inclusion in the *Annual Improvements Cycle 2012–2014*, but further work required

IFRS 7 *Financial Instruments: Disclosure—Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7)

The IASB issued *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) in October 2010. The transfer disclosures include the addition of paragraphs 42A–42H to IFRS 7 *Financial Instruments: Disclosures* and are effective for annual periods beginning on or after 1 July 2011. IFRS 7 paragraph 42C includes the definition of 'continuing involvement' for the purpose of the transfer disclosures.

The Interpretations Committee received a request to seek clarification through an Annual Improvement on whether servicing rights and obligations are continuing involvement for the purpose of the transfer disclosures.

In this meeting the Interpretations Committee noted that, based on the wording in IFRS 7 paragraph 42C, it was not clear to the Interpretations Committee whether servicing arrangements are continuing involvement for the purposes of applying the transfer disclosure requirements. Consequently, the Interpretations Committee recommended that the IASB should consider clarifying the requirements for continuing involvement in paragraph 42C of IFRS 7.

Issues recommended for narrow scope amendment

IAS 19 *Employee Benefits—Measurement of the net defined benefit obligation (DBO) for post employment benefit plans with employee contributions*

The Interpretations Committee received two requests, in May and September 2012 respectively, seeking clarification of paragraph 93 of IAS 19 *Employee Benefits*. That paragraph refers to the accounting for employee contributions set out in the formal terms of a defined benefit plan. The submitters specifically requested guidance on the accounting of employee contributions in respect of service. The Standard is effective from annual periods beginning on or after 1 January 2013. The Interpretations Committee already discussed this issue at its September and November 2012 meetings.

At its meetings in September and November 2012, the Interpretations Committee observed that employee contributions, including expected future contributions that result from employee service in the current and prior periods, should be considered in calculating the DBO. However, the Interpretations

Committee was concerned about the complexity of the required calculations and the potential confusion that they could introduce to practice.

At this meeting, the Interpretations Committee discussed, by considering some examples, whether certain types of employee contributions to a defined benefit plan reduce short term employee benefits cost (for example, salary) instead of reducing post employment benefits cost.

The Interpretations Committee observed that the wording in paragraph 93 of IAS 19 seemed to suggest that all employee contributions in respect of service should be attributed to periods of service as a negative benefit in accordance with paragraph 93 of IAS 19, despite the fact that employee contributions that are linked solely to the employee's service rendered in the same period (for example, a fixed percentage of salary over the period of the employment) might be considered to meet the definition of short term employee benefits.

The Interpretations Committee noted, however, that the existing wording in paragraph 93 of IAS 19 is not sufficiently clear to ensure that all entities reach the same interpretation as it did at this meeting. The Interpretations Committee further noted that, taking into account the effective date of the Standard, this issue should be addressed urgently. Consequently, the Interpretations Committee decided to ask the IASB to consider a narrow scope amendment to reflect the observations made at this meeting. The staff will bring a proposed amendment to a future IASB meeting.

IAS 39 Financial Instruments: Recognition and Measurement—Novation of derivatives under EMIR legislation

The Interpretations Committee received a request to clarify whether an entity is required to discontinue hedge accounting for hedging relationships in which an over-the-counter (OTC) derivative has been designated as a hedging instrument under IAS 39 when the OTC derivative is novated to a central counterparty (CCP) following the introduction of the Regulation on OTC derivatives, central counterparties (CCPs) and trade repositories (the so-called European Market Infrastructure Regulation—EMIR).

The submitter's concern is that discontinuation of hedge accounting because of the novation would require an entity to newly designate the novated derivative if hedge accounting is to be used subsequently. In particular, the submitter was concerned that a new designation of the novated derivative would result in more hedge ineffectiveness compared to a continuing hedging relationship because the novated derivative would have a non-zero fair value at the date of novation (and subsequent designation).

The Interpretations Committee noted that IAS 39 requires an entity to discontinue hedge accounting when the OTC derivative, which is designated as a hedging instrument, is novated to a CCP under EMIR, because the existing novated derivative is derecognised and the new derivative contracts, with a counterparty being the CCP, are recognised at the time of the novation.

The Interpretations Committee, however, also discussed whether to recommend that the IASB make a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in the very narrow circumstances where the parties to the original hedging instrument are required as a result of law or regulation to novate in the same way, with no other changes to the term of the hedging instrument. The Interpretations Committee decided to recommend that the IASB make such a narrow-scope amendment to IAS 39.

Interpretations Committee work in progress

IAS 19 Employee Benefits—Actuarial assumptions: discount rate

In October 2012, the Interpretations Committee received a request for guidance on the determination of the rate used to discount post-employment benefit obligations. In particular, the submitter asked the

Interpretations Committee whether corporate bonds with an internationally recognised rating lower than 'AA' can be considered to be high quality corporate bonds (HQCB). The issue arose because, as a consequence of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased to the extent that the submitter considers significant.

In its November 2012 meeting, the Interpretations Committee noted that:

- a. the predominant past practice has been to consider corporate bonds to be high quality if they receive one of the two highest ratings given by an internationally recognised rating agency (i.e. 'AAA' and 'AA').
- b. IAS 19 does not specify how to determine the market yields on HQCB, and in particular it does not specify what grade of bonds should be designated as high quality.
- c. an entity shall apply judgement in determining what the current market yields on HQCB are, taking into account the guidance in paragraphs 84 and 85 of IAS 19 Employee Benefits (2011); and
- d. an entity's policy for determining the discount rate should be applied consistently over time. In particular, the requirement that the discount rate excludes the effects of actuarial risk and investment risk should be applied consistently from period to period. Consequently, the Interpretations Committee does not expect that an entity's method of determination of the discount rate so as to reflect the yields on HQCB will change significantly from period to period, other than to reflect changes in the time value of money and the estimated timing and amounts of benefit payments.

At this meeting, the Interpretations Committee discussed the underlying principles for determining the discount rate and whether the basket of HQCB should be determined at the Eurozone level or at country level for liabilities denominated in Euro. The Interpretations Committee:

- a. expressed support for the June 2005 Interpretations Committee agenda decision that, in determining the discount rate, an entity shall include HQCB issued by entities operating in other countries, provided that these bonds are issued in the currency in which the benefits are to be paid. A consequence of this view is that for a liability expressed in euro, the deepness of the market of HQCB should be assessed at the Eurozone level; and
- b. requested the staff to consult with the IASB:
 - I. to confirm that the underlying principle for the determination of the discount rate is set out in paragraph 84 of IAS 19 (2011), and is described as "the discount rate reflects the time value of money but not the actuarial or investment risk";
 - II. to provide clarity about this sentence in paragraph 84;
 - III. to ask whether this sentence in paragraph 84 means that the objective for the discount rate for post-employment benefit obligations should be a risk free rate; and
 - IV. to confirm that IAS 19 should be amended to clarify that when government bonds are used to establish the discount rate in the absence of HQCBs, those government bonds used must themselves be high quality.

The staff will bring these consultation matters to a future IASB meeting and will report back to the Interpretations Committee.

IAS 39 Financial Instruments: Recognition and Measurement—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income

The IFRS Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income.

The Interpretations Committee was concerned that finalising the tentative agenda decision could have unintended consequences on the classification of financial assets in accordance with IFRS 9 *Financial Instruments* which is currently subject to a project to consider limited scope amendments. The Interpretations Committee therefore decided to refrain from finalising the tentative agenda decision until the IASB has completed its redeliberations on the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*.

IAS 40 *Investment Property*—Accounting for a structure that appears to lack the physical characteristics of a building

The Interpretations Committee received a request to clarify whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment (PP&E), in accordance with IAS 16 *Property, Plant and Equipment*, or as an investment property, in accordance with IAS 40 *Investment Property*. The request describes a circumstance in which 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 some basic services to the telecommunication operators such as maintenance services. The leasing of spaces in the tower is an emerging business model. In this request, the submitter is specifically seeking a clarification on:

- a. whether a telecommunication tower should be viewed as a 'building' and thus as 'property', as described in paragraph 5 of IAS 40; and
- b. how the service element in the leasing agreement and business model of the entity should be taken into consideration when analysing this issue.

In the September 2012 meeting, the Interpretations Committee agreed that the tower in the submission has some of the characteristics of investment property, in that spaces in the tower are let to tenants to earn rentals. However, the Interpretations Committee expressed concerns as follows:

- a. it is questionable whether the tower qualifies as a 'building' because it lacks features usually associated with a building, such as walls, floors and a roof; and
- b. the same question could arise about other structures, such as gas storage tanks and advertising billboards.

Consequently, the Interpretations Committee requested the staff to perform further analysis on this issue so that the Interpretations Committee can consider whether amendments to the scope of IAS 40 could or should be made.

In this meeting, the Interpretations Committee was provided with updates on the staff analysis on whether and how IAS 40 could be amended to expand the scope of IAS 40 to a structure that lacks the physical characteristics associated with a normal building. In the discussions, the Interpretations Committee observed that there is merit in exploring approaches to amending IAS 40 to help the IASB to decide whether IAS 40 should be amended so that the scope of IAS 40 is not limited to land and buildings in order to accommodate emerging business models such as leasing of spaces in telecommunication towers. The Committee discussed whether the scope of IAS 40 might be more meaningful if it focused on a nature of the business activity (and therefore might include assets other than property that are held to earn rentals or for capital appreciation or both) rather than the nature of the asset.

However, the Interpretations Committee also noted that under the new proposed lease accounting model, the guidance for deciding (a) how a lessor accounts for a lease; and (b) how a lessee recognises lease related expenses in profit or loss depends, to a large extent, on whether the lease is a lease of property or a lease of an asset other than property. In this regard, the Interpretations Committee was concerned about whether the meaning of the term 'property' should be consistent with that under the new lease accounting model.

Consequently, the Interpretations Committee directed the staff to inform the IASB of the views expressed in this meeting when the IASB deliberates the Lease project, and to seek the IASB's views as to what extent the IASB think the definition of the term 'property' in IAS 40 should be aligned with that in the new Lease Standard. The staff will bring further analysis with the IASB's views to a future meeting of the Interpretations Committee.

IAS 7 *Statement of Cash Flows*—Definitions of operating, investing and financing activities

The discussion of how the definitions of operating, investing and financing cash flows in IAS 7 could be made clearer and thus could lead to a more consistent application of the identified primary principle behind the classification of the cash flows was postponed. This issue will be discussed at the next Interpretations Committee meeting.

IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised

The Exposure Draft *Annual Improvements to IFRSs 2010–2012 cycle* proposes to amend IAS 7 to clarify the classification in the statement of cash flows of interest paid that is capitalised into the cost of property, plant and equipment.

The deliberation upon the comments received on this proposed amendment was postponed until the next Interpretations Committee meeting.

IAS 29 *Financial Reporting in Hyperinflationary Economies*—Applicability of IAS 29 to financial statements prepared under the concept of financial capital maintenance in units of constant purchasing power

The Interpretations Committee received a request to clarify whether an entity whose functional currency is the currency of a hyperinflationary economy as described in IAS 29 needs to apply IAS 29 to its financial statements prepared under the concept of financial capital maintenance defined in terms of constant purchasing power units rather than nominal monetary units.

The Interpretations Committee did not discuss this matter at this meeting. Additional analysis will be performed by the staff on this issue and the matter will be discussed at a future Interpretations Committee meeting.

Interpretations Committee work in progress update

The Interpretations Committee received a report on three new issues and on three ongoing issues for consideration at a future meeting. The report also included one issue that is on hold and that will be considered again at a future meeting. All requests received and considered by the staff were discussed at this meeting, except for the seven issues included in the work in progress report and the three matters described above:

- IAS 7 *Statement of Cash Flows*—Definitions of operating, investing and financing activities;
- IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised; and
- IAS 29 *Financial Reporting in Hyperinflationary Economies*—Applicability of IAS 29 to financial statements prepared under the concept of financial capital maintenance in units of constant

purchasing power

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