# AASB Staff Summary of IFRS Interpretations Committee Decisions May 2013

1 At the IFRS IC meeting held on 14 and 15 May 2013, the Committee made some final agenda decisions and tentative decisions. The Committee also discussed issues considered for Annual Improvements, issues on its current agenda and issues that are work in progress. Please refer to the *IFRIC Update* (Tabled Agenda Paper 4.4) for a detailed description of each issue discussed by the Committee, including a summary of the Committee's work in progress.

## Staff recommendation

2 Although, as noted in paragraph 3 below, AASB staff have concerns in relation to some of the issues currently being discussed, staff do not think there are any issues arising from the May 2013 Committee meeting that need to be raised with the Committee at this stage.

| **Question to Board members:** |
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| Do you agree with staff's recommendation? |

## Areas of concern

3 Staff would like to highlight the following areas of concern:

| Brief description | AASB staff comments |
|---|---|
| **IAS 40 Investment Property—**Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (Annual Improvement recommended for finalisation) | |
| Having considered the comments received, the Interpretations Committee recommended that the IASB should finalise the proposed amendment to IAS 40. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that:<br>• judgement is needed to determine whether the acquisition of investment property is an acquisition of a single asset or of a group of assets, or is a business combination within the scope of IFRS 3; and<br>• this judgement is not based on paragraphs 7-15 of IAS 40 but on the guidance in IFRS 3. 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.<br>The Committee also recommended that the proposed amendment should be applied prospectively. However, retrospective application of this amendment is permitted if, and only if, the information needed to apply the amendment retrospectively is available to the entity. | The AASB provided the following comments in its comment letter[1] to the IASB:<br>*The AASB agrees with the IASB's concern that acquisitions of investment properties are dealt with inconsistently in practice. However, the AASB is of the view that an amendment to IAS 40 would not adequately address the fundamental need to improve the definition of a business in IFRS 3…*<br>*…If the proposal to amend IAS 40 proceeds, the AASB is concerned that the phrase "this judgment is not based on paragraphs 7-15 of IAS 40 but is instead based on the guidance in IFRS 3", ignores the fact that the distinguishing characteristics of an investment property could be relevant in applying IFRS 3's definition of a business.*<br>Consistent with these comments, AASB staff **disagree** with the Committee recommendation to proceed with the amendment to IAS 40, as drafted.<br>In relation to prospective/retrospective application, the AASB comment letter to the IASB noted:<br>*In relation to IAS 40 some AASB members query the proposal that the amendment to IAS 40 …be applied prospectively. They regard the proposed new text as clarifying what was previously required and therefore if it has not been previously complied with, an error has been made and should be corrected retrospectively in accordance with IAS 8* Accounting Policies: Changes in Accounting Estimates and Errors*…*<br>Consistent with the AASB's comment letter, AASB staff **disagree** with the Committee's decision to permit retrospective application. Instead, AASB staff suggest that retrospective application be required, where practicable. Furthermore, we continue to question why prospective application would be permitted, for the reasons |

[1] http://www.aasb.gov.au/admin/file/content106/c2/AASB_Submission_IASB_Improvements_2011-2013.pdf

<table>
<tr><th>Brief description</th><th>AASB staff comments</th></tr>
<tr><td></td><td>previously noted in the AASB comment letter.</td></tr>
<tr><td colspan="2">IAS 19 Employee Benefits—Actuarial assumptions: discount rate (Committee work in progress)</td></tr>
<tr><td>In October 2012 the Committee received a request for guidance on the determination of the rate used to discount post-employment obligations. In particular, the submitter asked the Committee whether corporate bonds with an internationally recognised rating lower than ‘AA’ can be considered to be high quality corporate bonds (HQCB).<br><br>In its March 2013 meeting, the Committee was informed that the majority of the IASB members agreed that:<br><br>• the objective for the determination of the discount rate is paragraph 84 of IAS 19, i.e. “the discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.”;<br>• the Committee should clarify the sentence “the discount rate reflects the time value of money but not the actuarial or investment risk” and that this sentence does not mean that the discount rate for post-employment benefit obligations should be a risk-free rate;<br>• the discount rate should reflect the credit risk of HQCB and that a reasonable interpretation of HQCB could be corporate bonds with minimal or very low credit risk; and<br>• the Committee should propose amendments to IAS 19 to specify that when government bonds are used to determine the discount rate they should be of high quality.<br><br>Consequently, the Interpretations Committee requested the staff to consult appropriate experts, for example actuaries, and to prepare proposals for a narrow-scope amendment to IAS 19 that reflects the IASB’s direction above.<br><br>At this meeting, having considered the staff proposals for a narrow-scope amendment, the Committee decided that the staff proposals were too broad an amendment to IAS 19.<br><br>Consequently, the Committee requested the staff to refocus its work on an analysis of whether ‘high quality’ is a relative or an absolute concept. Depending on the conclusions of this analysis the Committee will consider whether to issue an agenda decision, develop some guidance or recommend some amendments to the Standard.</td><td>AASB staff agree that the Committee staff proposals would be too broad for the Committee to consider and any such amendment would need to be dealt with by the IASB.<br><br>Since there is no Basis for Conclusions to the original IAS 19 decisions on the discount rate, AASB staff think it’s debatable as to whether the IASC intended: View (1) a risk-free rate, using HQCBs and government bonds as a surrogate that might achieve some level of consistency between entities; or View (2) a risk-free rate plus a low credit risk adjustment, using HQCBs and government bonds as a benchmark that might achieve some level of consistency between entities.<br>AASB staff are of the view that the minimum changes that would be needed to solve the current problems would be to allow the use of yields from any corporate bond market or government bond market and then require them to be adjusted; either to remove all the credit risk (View 1); or to remove most of the credit risk (view 2). While changes are being made, the IASB could also allow entities to identify deep markets for bonds in other currencies and the use of currency swap rates to adjust the yield.</td></tr>
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