# AASB Staff Summary of IFRS Interpretations Committee Decisions
# July 2013

At the IFRS Interpretations Committee (Committee) meeting held on 16-17 July 2013, the Committee made a final agenda decision in relation to the use of a pre-tax or post-tax discount rate in the calculation of a defined benefit obligation (see part A below). The Committee also made tentative decisions in relation to:

- the selection of a discount rate in reference to high quality corporate bonds for the calculation of post-employment benefit obligations;
- clarification of the transitional provisions of IFRS 10 and IFRS 11;
- a request for guidance on the classification, in the consolidated financial statements of a group, of puttable instruments that are issued by a subsidiary but that are not held, directly or indirectly, by the parent;
- how an issuer would assess the substance of a particular early settlement option included in a financial instrument in accordance with IAS 32; and
- how an issuer would classify a particular mandatorily convertible financial instrument in accordance with IAS 32 (see part B below).

The Committee also discussed issues considered for Annual Improvements and a 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.

**Part A: Summary of final agenda decisions**

| | Topic | Brief description | AASB staff comments |
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| **A1** | IAS 19 *Employee Benefits*—pre-tax or post-tax discount rate | The Committee received a request for guidance on the calculation of defined benefit obligations. In particular, whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit obligation should be a pre-tax or post-tax rate.<br><br>The Committee observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate and decided not to add this issue to its agenda. | Staff **agree** with the Committee's decision not to add the issue to its agenda. |

**Part B: Summary of tentative agenda decisions**

| | Topic | Brief description | AASB staff comments |
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| **B1** | IAS 19 *Employee Benefits*—Actuarial assumptions: discount rate | The Committee discussed a request for guidance on the determination of the rate used to discount post-employment benefit obligations. In particular, whether corporate bonds with a rating lower than ‘AA’ can be considered to be a high quality corporate bond (HQCB).<br><br>The Committee discussed this issue in several meetings and noted that issuing additional guidance on or changing the requirements for the determination of the discount rate would be too broad for it to address in an efficient manner. Consequently the Committee [decided] not to add this issue to its agenda. | Staff **agree** with the Committee’s decision not to add the issue to its agenda. |
| **B2** | IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*—transitional provisions in respect of impairment, foreign exchange and borrowing costs | The Committee discussed a request to clarify the transitional provisions of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The transitional provisions of IFRS 10 and IFRS 11 provide relief from retrospective application in specific circumstances. However, IFRS 10 and IFRS 11 do not provide specific relief from retrospective application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs* or IAS 36 *Impairment of Assets*. Therefore, retrospective application of these Standards could be problematic when first applying IFRS 10 and IFRS 11.<br><br>The Committee determined that, in the light of the existing transitional requirements of IFRS 10 and IFRS 11, sufficient guidance or relief from retrospective application already exists and that neither an Interpretation nor an amendment to a Standard was necessary and consequently | Staff **agree** with the Committee’s decision not to add the issue to its agenda. |

| | Topic | Brief description | AASB staff comments |
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| | | decided not to add this issue to its agenda. | |
| **B3** | IFRS 10 *Consolidated Financial Statements*—Classification of puttable instruments that are non-controlling interests | The Committee discussed a request for guidance on the classification, in the consolidated financial statements of a group, of puttable instruments that are issued by a subsidiary but that are not held, directly or indirectly, by the parent. The submitter asked about puttable instruments classified as equity instruments in the financial statements of the subsidiary in accordance with paragraphs 16A-16B of IAS 32 *Financial Instruments: Presentation* ('puttable instruments') that are not held, directly or indirectly, by the parent. The question asked was whether these instruments should be classified as equity or liability in the parent's consolidated financial statements.<br><br>The Committee concluded that in the light of the existing guidance in IAS 32, neither an interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda. | Staff **agree** with the Committee's decision not to add the issue to its agenda. |
| **B4** | IAS 32 *Financial Instruments: Presentation*—Classification of a financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares | The Committee discussed how an issuer would assess the substance of a particular early settlement option included in a financial instrument in accordance with IAS 32 *Financial Instruments: Presentation*. The instrument has a stated maturity date and at maturity the issuer must deliver a variable number of its own equity instruments to equal a fixed cash amount, subject to a cap and a floor. The cap and floor limit and guarantee, respectively, the number of equity instruments to be delivered. The issuer is required to pay interest at a fixed rate. The issuer has the contractual right to settle the instrument at any time before maturity. If the issuer chooses to exercise that early settlement option, it must: | Staff **agree** with the Committee's decision not to add the issue to its agenda. |

| | Topic | Brief description | AASB staff comments |
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| | | • deliver the maximum number of equity instruments specified in the contract; and<br>• pay in cash all of the interest that would have been payable if the instrument had remained outstanding until its maturity date.<br>The Committee considered that in the light of its analysis of the existing IFRS requirements, neither an interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add the issue to its agenda. | |
| **B5** | IAS 32 *Financial Instruments: Presentation*—Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'non-viability' event | The Committee discussed how an issuer would classify a particular mandatorily convertible financial instrument in accordance with IAS 32. The financial instrument did not have a stated maturity date but was mandatorily convertible into a variable number of the issuer's own equity instruments if the issuer breached the Tier 1 Capital ratio (ie described as a 'contingent non-viability event'). The financial instrument is issued at par and the value of the equity instruments that will be delivered at conversion is equal to that fixed par amount. Interest payments on the instrument are payable at the discretion of the issuer.<br>The Committee considered that in the light of its analysis of the existing IFRS requirements, neither an interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add the issue to its agenda. | Staff **agree** with the Committee's decision not to add the issue to its agenda. |

## Part C: Issues considered for Annual Improvements

| | Topic | Brief description | AASB staff comments |
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| **Issues considered for inclusion in Annual Improvements Cycle 2012 – 2014** | | | |
| **C1** | IAS 19 *Employee Benefits*—Discount rate: regional market issue | The Committee was asked to clarify the application of the requirements of IAS 19 *Employee Benefits* (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency (eg the Eurozone). The issue arose because some think that the assessment of whether there is a deep market in high quality corporate bonds, and the bonds to be included in determining market yields on such bonds, should be made at a country level and not at a currency zone level.<br><br>The Committee recommended that the IASB should amend paragraph 83 of IAS 19 through Annual Improvements in order to clarify that in determining the discount rate an entity shall include high quality corporate bonds issued by entities operating in other countries, provided that these bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at the currency level and not at the country level.<br><br>The Committee requested the Committee staff to ask the IASB whether it wants to clarify which government bonds should be used in a multi-country regional market sharing the same currency. This issue could arise in the absence of a deep market in high quality corporate bonds issued in such a currency. | Staff **agree** with the Committee that in determining the discount rate and 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.<br><br>Staff **agree** with the Committee's recommendation. |
| **C2** | IAS 1 *Presentation of Financial Statements*—presentation of items of other comprehensive | The Committee was asked to clarify the requirements in paragraph 82A of IAS 1 for presenting an entity's share of the other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method. This | Staff **agree** with the Committee's view that the IASB should amend paragraph 82A of IAS 1 to clarify that entities shall present the share of the OCI of associates and joint ventures accounted for using the equity method in |

| | Topic | Brief description | AASB staff comments |
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| | income arising from equity-accounted investments | issue arose because there was confusion about how the wording in the Standard was to be interpreted. In particular, questions were raised about whether the IASB intended in its June 2011 amendments to IAS 1 to require the presentation of the share of the OCI arising from equity method investments separately by nature, or in aggregate as a single line item.<br><br>The Committee recommended that the IASB should amend paragraph 82A of IAS 1 to clarify that entities shall present the share of the OCI of associates and joint ventures accounted for using the equity method in aggregate as a single line item. This share should be classified between whether those items will or will not be subsequently reclassified to profit or loss. In addition, the Interpretations Committee recommended amending the Implementation Guidance in IAS 1 to reflect that change. | aggregate as a single line item. |
| **C3** | IFRS 7 *Financial Instruments: Disclosures*: applicability of the amendments to IFRS 7 to condensed interim financial statements | The Committee was asked to clarify the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 (‘Amendments to IFRS 7’) to condensed interim financial statements. In particular, it was asked to clarify the meaning of “interim periods within those annual periods” as used in paragraph 44R of IFRS 7. There was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 should be included in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. If they are, there was uncertainty about whether these should be presented in every set of condensed interim financial statements or only in those in the first year in which the disclosure requirements are effective. IAS 34 was not changed as a consequence of the amendments to IFRS 7. | Staff **agree** that an amendment should be made to clarify what is required to explicitly state in which period(s) the disclosures are required for complete interim financial statements and condensed financial statements.<br><br>Staff **support** the view of the Committee that the offsetting disclosure should not be explicitly required to be provided in condensed interim financial statements by IFRS 7, but should be included when required by IAS 34. |

| | Topic | Brief description | AASB staff comments |
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| | | The Committee noted that IAS 34 was not consequentially amended upon issue of the Amendments to IFRS 7 and that when the IASB wants to explicitly require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34. Consequently the Committee recommended that the IASB should propose an amendment to IFRS 7 to clarify that the additional disclosure required by the Amendments to IFRS 7 is not required in condensed interim financial statements for all interim periods, either in the first year of application of the amendments or in any subsequent year, unless its inclusion would be required in accordance with the requirements of IAS 34. | |
| **Issues recommended a for narrow scope amendment** | | | |
| **C4** | IFRS 10 *Consolidated Financial Statements* and IAS *28 Investments in Associates and Joint Ventures*—Exposure Draft Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | At this meeting, the Committee was presented with a summary and an analysis of the comment letters received on Exposure Draft ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture—*Proposed amendments to IFRS 10 and IAS 28, and decided that it should recommend that the IASB should proceed with the amendments to IFRS 10 and IAS 28 (2011). It thinks that the proposed amendments would reduce diversity even if judgement will still be required in some cases to determine whether the assets sold or contributed constitute a business. Although it agrees that the definition of a business should be discussed as part of the PIR of IFRS 3, it thinks that the IASB should not wait for this review and should proceed with the proposed amendments. It thinks that the proposed amendments are still the best way forward in the meantime in order to resolve the conflict, reduce diversity and minimise structuring opportunities.<br><br>However, the Committee decided to propose changes to the | Staff **agree** with the Committee's decisions and recommendations, which are consistent with the AASB's comment letter to the IASB on ED/2012/6. |

| | Topic | Brief description | AASB staff comments |
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| | | wording of the proposed amendments to IFRS 10 in the light of individual comments received. It also decided to:<br>• propose that the IASB should permit early adoption of the amendments to IFRS 10 and IAS 28; and<br>• propose a consequential amendment to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* that provides relief from retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters.<br>The Committee also decided that further analysis and discussion is needed before proposing whether the IASB should amend or delete paragraph 31 of IAS 28, which is perceived as conflicting with the proposed amendments to IFRS 10 and IAS 28 (2011).<br>Finally, the Committee decided to recommend that the IASB should address the following topics as part of other projects:<br>• sales and contributions of assets between an investor and its associate or joint venture in the investor's separate financial statements;<br>• sales and contributions of assets between an investor and its joint operation; and<br>• review of the principles underlying equity method accounting. | |
| **C5** | IFRS *11 Joint Arrangements*—Exposure Draft *Acquisition of an Interest in a Joint* | At this meeting, the Committee was presented with a summary and an analysis of the comment letters received on Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation*—Proposed amendments to IFRS 11, with | Staff **agree** with the Committee's decision and recommendations, which are consistent with the AASB's comment letter to the IASB on ED/2012/7. |

| | Topic | Brief description | AASB staff comments |
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| | *Operation* | the aim of making a recommendation to the IASB on how to proceed with the amendment.<br>In the light of the comments received, a majority of the Committee members agreed that the amendment should be finalised and that the request for additional guidance should be brought to the IASB's attention.<br>The staff will present a summary of the Committee's discussions and views on the Exposure Draft and the comments received to the IASB at a future meeting. | |
| **C6** | IAS 28 *Investments in Associates and Joint Ventures*—Exposure Draft *Equity Method: Share of Other Net Asset Changes* | At this meeting, the Committee was presented with a summary and an analysis of the comment letters received on Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes*—Proposed amendments to IAS 28.<br>A considerable number of respondents disagreed with the IASB's proposals, for various reasons, but there was no dominant view of how to account for the other net asset changes.<br>The Committee tentatively decided to resubmit its original proposal, made in June 2012, to the IASB. If the IASB was not persuaded by the original proposal again, the Committee's preference is to recognise all types of other net asset changes in the investor's profit or loss, because in its view they are income and expenses.<br>The staff will present the Committee's recommendation to a future IASB meeting. | AASB staff **agree** with the Committee's direction. The direction that the committee has taken is **consistent** with the AASB's recommendations in its submission to the IASB on ED/2012/3. |
| **C7** | IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*—Exposure Draft | At this meeting, the Committee was presented with a summary and an analysis of the comment letters received on Exposure Draft ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*—Proposed | AASB staff **agree** with the Committee's directions to its staff, which seem consistent with the views in the AASB's submission on IASB ED/2012/5. |

| | Topic | Brief description | AASB staff comments |
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| | *Clarification of Acceptable Methods of Depreciation and Amortisation* | amendments to IAS 16 and IAS 38. The members of the Committee expressed mixed views on the proposed amendments. However, they agreed that the focus of the amendments should remain on the principle that the method used for depreciation or amortisation should reflect the expected pattern of consumption of the future economic benefits embodied in the asset.<br><br>The Committee directed the staff to develop the proposed amendment further to clarify the principle for depreciating assets in paragraph 60 of IAS 16 and the principle for amortising intangible assets in paragraph 97 of IAS 38. This proposal should clarify that a depreciation or amortisation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. As a consequence, a method whose objective is to reflect the pattern in which the asset's future economic benefits are expected to be generated should be prohibited.<br><br>The staff will bring this proposal for an amendment to IAS 16 and IAS 38 to a future meeting. | |

**Part D: IFRS IC Current agenda**

| | Topic | Brief description | AASB staff comments |
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| **D1** | IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions | At its previous meetings, the Committee agreed on the scope of its work on employee benefit plans with a guaranteed return on contributions or notional contributions.<br><br>At this meeting, the Committee was presented with an analysis of how the proposed scope would apply to various types of benefit promises, with a comparison to the scope proposed for contribution-based promises in the IASB's Discussion Paper published in 2008.<br><br>The Committee observed that the agreed scope might be broader than it had envisaged because promises such as some current salary and career average promises would be included. However, in the light of the ongoing concerns about how to account for employee benefit plans with a guaranteed return on contributions or notional contributions, and the resulting diversity in practice, the Committee tentatively decided to proceed with this project on the basis of the agreed scope.<br><br>The Committee will discuss the recognition and measurement of promises within the agreed scope at a future meeting. | Staff **agree** with the Committee's decision to proceed with the project within the agreed scope. However staff think that the scope of the project should make it clear whether it covers contribution promises where the investment choice is with the employer or employee or both. |

**Part E: Interpretations Committee work in progress**

| | Topic | Brief description | AASB staff comments |
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| **E1** | IAS 40 *Investment Property*—Accounting for a structure that appears to lack the physical characteristics of a building | The Committee discussed a request to clarify whether telecommunication towers should be accounted for as property, plant and equipment, 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 leases spaces in the towers to telecommunication operators to which the operators attach their own devices. The entity provides some basic services to the telecommunication operators such as maintenance services.<br><br>In this meeting, the staff provided the Committee with updates on the interaction between this issue and the new proposed lease accounting model in the Leases Exposure Draft published in May 2013, and presented a proposed approach to amending the definition of the term 'investment property' in IAS 40. In the discussions, the Committee expressed general support for broadening the scope of IAS 40 to also include a structure such as a telecommunication tower, but to do so by focusing on the way the asset is used rather than by focusing on the physical characteristics of the structure or on whether it is fixed to land.<br><br>Notwithstanding the above, the Committee noted that the IASB tentatively decided to use the same definition of 'property' in the Leases Exposure Draft as that in the existing definition of 'investment property' in IAS 40. Because of the linkage between IAS 40 and the proposed lease accounting model, the Committee observed that it is difficult for the Interpretations Committee to recommend an | Staff **do not support** continuing with this project. Staff **disagree** with the committee's general support to expand the definition of investment property.<br><br>However, if the Committee decides to continue with the project and expand the definition of investment property, staff preliminary view is to support a focus on the way the asset is used rather than by focusing on the physical characteristics of the structure or on whether it is fixed to land. |

| | Topic | Brief description | AASB staff comments |
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| | | approach to amending the definition of 'investment property' in IAS 40 only within the context of IAS 40. The Committee noted that this issue should be analysed within the context of both IAS 40 and the Leases project.<br>Accordingly, the Committee decided to report back to the IASB the views and concerns expressed in this meeting so that the IASB can consider this issue when finalising the Leases Standard, and to ask for the IASB's guidance on whether the Committee should do any further work on this topic. | |
| **E2** | IAS 7 *Statement of Cash Flows*—Classification of expenditures in the statement of cash flows | At the March 2013 meeting the Committee recommended to the IASB that it should delete the guidance in paragraph 16 of IAS 7, which makes explicit that "only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities". This amendment was proposed by the Committee because it observed that some had read the guidance in paragraph 16 of IAS 7 as giving precedence to the classification of cash flows consistently with the classification of the related or underlying item in the statement of financial position.<br>The staff informed the Committee that at the April 2013 meeting the IASB discussed the proposal made by the Committee. At this meeting the IASB decided not to remove the guidance from paragraph 16 of IAS 7 because it noted that this guidance has potentially reduced diversity in practice in the classification of cash flows relating to exploration and evaluation activities.<br>During its deliberations in April 2013, the IASB observed that the guidance in paragraph 16 of IAS 7 had been introduced as part of the Annual Improvements project in 2009 to clarify the classification of expenditures for | Staff **disagree** with the IASB and **agree** with the Committee that this sentence from paragraph 16 of IAS 7 should be removed.<br>The sentence unnecessarily results in form over substance for what is or isn't classified as an investing activity. Staff consider the relevant principle to be why the transaction is being undertaken – not what element it will result in.<br>The IASB's reasoning for adding the sentence in the first place was to reduce diversity from extractive entities because IFRS 6 allows either the expensing or capitalisation of exploration and evaluation costs. Staff **agree** that it will reduce diversity regarding the classification of such expenses, but the fact remains that diversity still exists because of the option in IFRS 6. Further regardless of whether an entity expenses or capitalises it's exploration and/or evaluation costs the transaction is still the same and is for the same purpose – to develop potential from a mining/oil lease. |

| | Topic | Brief description | AASB staff comments |
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| | | exploration and evaluation activities. IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits such expenditures to be recognised as either an asset or an expense and some entities classified such expenditures as cash flows from operating activities, but others classified them as investing activities. | |