AASB Staff Summary of IFRS Interpretations Committee Decisions September 2013

At the IFRS Interpretations Committee (Committee) meeting held on 10-11 September 2013, the Committee made final agenda decisions in relation to:

- classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator;
- effect of protective rights on an assessment of control; and
- the classification of financial instruments that give the issuer the contractual right to choose the form of settlement. (see Part A below)

The Committee also made a tentative decision in relation to the applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units (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
A1	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator	The Committee received a request to clarify the application of the guidance in IFRS 5 regarding the classification of a non-current asset (or disposal group) as held for sale, in the case of a disposal plan that is intended to be achieved by means of an initial public offering (IPO), but where the prospectus (ie the legal document with an initial offer) has not yet been approved by the securities regulator. The Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. The Committee consequently decided not to add this issue to its agenda.	AASB staff **agree** with the agenda decision.

	Topic	Brief description	AASB staff comments
A2	IFRS 10 *Consolidated Financial Statements*—Effect of protective rights on an assessment of control	The Committee received a request to clarify the guidance in IFRS 10. The query relates to protective rights and the effect of those rights on the power over the investee. More specifically, the submitter asked whether the assessment of control should be reassessed when facts and circumstances change in such a way that rights, previously determined to be protective, change (for example upon the breach of a covenant in a borrowing arrangement that causes the borrower to be in default) or whether, instead, such rights are never included in the reassessment of control upon a change in facts and circumstances. The Committee noted that the conclusion about which party controlled the investee would need to be reassessed after the breach occurred. It also noted that the reassessment may or may not result in a change to the outcome of the assessment of control, depending on the individual facts and circumstances. The Committee also concluded that it did not expect significant diversity in practice to develop following the implementation of the Standard. Consequently, the Committee decided not to add this issue to its agenda.	AASB staff **agree** with the agenda decision. However, we have some concerns about the conclusion that the IASB's intention was that "protective rights should be included in a reassessment of control when facts and circumstances change." Protective rights are described in paragraph B27 as not giving power over the investee and thus not relevant to assessments of control. This is in our view always the case. What is important, though, is to assess whether changes in facts and circumstances have resulted in any protective rights becoming substantive rights, which therefore are relevant to a reassessment of power and control at that time. This intermediate step is missing from the agenda decision. The agenda decision thus does not adequately differentiate protective rights that remain protective rights and those that become substantive rights after a change in facts and circumstances.
A3	IAS 32 *Financial Instruments: Presentation*—Classification of financial instruments that give the issuer the contractual right to choose the form of settlement	The Committee received a request to clarify how an issuer would classify three financial instruments in accordance with IAS 32. None of the financial instruments had a maturity date but each gave the holder the contractual right to redeem at any time. The holder's redemption right was described differently for each of the three financial instruments; however in each case the issuer had the contractual right to choose to settle the instrument in cash or a fixed number of its own equity instruments if the holder exercised its redemption right. The issuer was not required to pay dividends on the three instruments but	AASB staff **agree** with the agenda decision.

	Topic	Brief description	AASB staff comments
		could choose to do so at its discretion. The Committee noted that a non-derivative financial instrument that gives the issuer the contractual right to choose to settle in cash or a fixed number of its own equity instruments meets the definition of an equity instrument in IAS 32 as long as the instrument does not establish an obligation to deliver cash (or another financial asset) indirectly through its terms and conditions. The Committee also acknowledged that financial instruments, in particular those that are more structured or complex, require careful analysis to determine whether they contain equity and non equity components that must be accounted for separately in accordance with IAS 32. The Committee noted that if the issuer has a contractual obligation to deliver cash, that obligation meets the definition of a financial liability. The Committee considered that in the light of its analysis of the existing IFRS requirements, an interpretation was not necessary and consequently decided not to add the issue to its agenda.	

Part B: Summary of tentative agenda decisions

	Topic	Brief description	AASB staff comments
B1	IAS 29 *Financial Reporting in Hyperinflationary Economies*—Applicability of the concept of financial capital maintenance defined	The Committee considered the following two questions: (a) whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units that is described in	AASB staff **agree** with the tentative agenda decision.

	Topic	Brief description	AASB staff comments
	in terms of constant purchasing power units	the Conceptual Framework when the entity's functional currency is not the currency of a hyperinflationary economy as described in IAS 29; and (b) if such use is permitted, whether the entity needs to apply IAS 29 to its financial statements prepared under a specific model of that concept of financial capital maintenance when it falls within the scope of IAS 29. The Committee observed that the guidance in the Conceptual Framework is written to assist the IASB in the development of Standards and that it is also used in the development of an accounting policy only when no IFRSs specifically apply to a particular transaction, other event or condition and no IFRSs deal with similar and related issues. Consequently the guidance in the Conceptual Framework relating to the use of a particular capital maintenance concept cannot be used to override the requirements of individual IFRSs. An entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in a particular IFRS, when applying that IFRS. In addition, the Committee noted that the results of the outreach indicate that these issues are not widespread. For this reason the Committee [decided] not to add these issues to its agenda.	

Part C: Issues considered for Annual Improvements

	Topic	Brief description	AASB staff comments
Deliberation of comments received on proposals for narrow scope amendments			
C1	IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*—Exposure Draft Clarification of Acceptable Methods of Depreciation and Amortisation	In December 2012, the IASB published for comment Exposure Draft ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*—Proposed amendments to IAS 16 and IAS 38. The comment period ended on 2 April 2013. At this meeting the Committee discussed the staff recommendations to finalise the amendment to IAS 16 and IAS 38. The Committee recommended that the IASB should amend IAS 16 and IAS 38 to make the following clear: (a) the principle for depreciating assets and for amortising intangible assets. Paragraph 60 of IAS 16 and paragraph 97 of IAS 38 establish the consumption of the future economic benefits inherent in the asset as the principle for depreciation and amortisation; (b) that a method based on the generation of future economic benefits that does not reflect the consumption of the future economic benefits is inconsistent with the principle for depreciating assets and for amortising intangible assets; and (c) that the selection of an amortisation method in IAS 38 could be based on the determination of the limiting factor for the intangible asset; for example, a contract could be limited by a number of years (ie time) or a number of units produced or an amount	Consistent with the AASB's comment letter on ED/2012/5, AASB staff **disagree** with the proposed prospective application of the proposals and continue to support retrospective application. AASB staff **agree** with the Committee's recommendation to make the principle clear for depreciating assets and amortising intangible assets based on the consumption of future economic benefits. AASB staff will continue to monitor the IASB's discussion.

	Topic	Brief description	AASB staff comments
		of revenue earned. The Committee recommends that the above amendments are to be applied prospectively. The Committee also discussed the componentisation of intangible assets on the basis of distinct expected future revenue streams but decided against recommending the inclusion of such guidance because of the potential complexity and potential unintended consequences.	
C2	IAS 19 *Employee Benefits*—Exposure Draft Defined Benefit Plans: Employee Contributions	At this meeting, the Committee was presented with a summary and an analysis of the 63 comment letters received on Exposure Draft ED/2013/4 *Defined Benefit Plans: Employee Contributions*—Proposed amendments to IAS 19. The Committee decided to propose that the IASB should proceed with the amendments, subject to some amendments to the proposed wording. In addition, the Committee decided to propose to the IASB that re-exposure is not necessary, based on the re-exposure criteria and the mandatory effective date is set at 1 July 2014, with earlier application permitted, subject to the discussions at a future IASB meeting. The staff will present the Committee's recommendation at the September 2013 IASB meeting.[1]	AASB staff **agree** with the Committee's recommendation that the proposed amendments should proceed, subject to some amendments to the proposed wording. AASB staff will continue to monitor the project. However, consistent with the AASB's comment letter to the IASB on ED/2013/4, AASB staff are concerned with an example being the only form of guidance in determining whether third party contributions are linked solely to the employee's service rendered in a period. AASB staff do not consider a single example as being sufficient to adequately facilitate analysis of other patterns of employee contributions or third party contributions.
Issues considered for inclusion in Annual Improvements Cycle 2012 – 2014			
C3	IFRS 2 *Share-based Payment*—Measurement of cash-settled share-based	The Committee received a request to clarify the measurement of cash-settled share based payment transactions that include a performance condition.	AASB staff **agree** with the Committee's proposal to amend IFRS 2 to clarify the measurement of cash-settled share-based payment transactions that include a

1 At its September meeting the IASB decided that it should proceed with the proposed amendments, subject to some changes to the proposed wording. The IASB expects to issue the amendments in November 2013.

	Topic	Brief description	AASB staff comments
	payment transactions that include a performance condition	Specifically, the request is asking if a performance condition in a cash-settled share-based payment arrangement should be taken into account when measuring the cash settled share based payment in a consistent manner as it is in an equity-settled share-based payment arrangement. The Committee tentatively decided that the measurement of cash-settled share-based payment transactions that include a performance condition should be consistent with the measurement of equity-settled awards that include a performance condition. The Committee asked the staff to draft a proposal for an annual improvement to IFRS 2 reflecting its conclusions at this meeting. The Committee will discuss the staff proposals at a future meeting.	performance condition to be consistent with the measurement of equity-settled awards that include a performance condition.
C4	IFRS 7 *Financial Instruments: Disclosures*—Servicing contracts	The Committee received a request for clarification through an Annual Improvement on whether servicing contracts constitute continuing involvement for the purpose of the transfer disclosures. In this meeting, the Committee decided to recommend to the IASB that it should amend IFRS 7 through an Annual Improvement by adding guidance to the Application Guidance of IFRS 7. This additional guidance would clarify how the principle in paragraph 42C of IFRS 7 is applied to a servicing contract for purposes of the transfer disclosure requirements.	AASB staff **agree** with the Committee's decision.
Issues recommended a for narrow scope amendment			
C5	IFRS 2 *Share-based Payment*—Accounting for share-based payment transactions in which the	In this meeting, the staff provided the Committee with approaches to amending IFRS 2 so that the Committee could consider whether IFRS 2 could or should be amended to address the diversity in practice on this issue.	AASB staff **agree** with the Committee's decision.

	Topic	Brief description	AASB staff comments
	manner of settlement is contingent on a future event that is outside the control of both the entity and the counterparty	On the basis of their discussions, the Committee decided to recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project by adding guidance in line with recording a cumulative adjustment at the point in time that the change in classification occurs, in such a way that the cumulative cost will be the same as if the change in classification had occurred at the inception of the arrangement.	

Part D: IFRS IC Current agenda

	Topic	Brief description	AASB staff comments
D1	IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions	At this meeting, the staff presented to the Committee an analysis of alternative measurement approaches that might be suitable for employee benefit plans within the agreed scope. The Committee tentatively decided that the approach based on IFRIC Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions* published in 2004 would be the most suitable for the measurement of the employee benefit plans within the agreed scope. The Committee also tentatively agreed to reconsider whether benefits with vesting conditions should be within the agreed scope. An approach consistent with D9 would require entities to measure benefits with a 'variable' return at the fair value of the underlying reference assets and those with a 'fixed' return using the projected unit credit method. Entities would measure benefits that promised the higher of more than one benefit at the intrinsic value.	AASB staff have **no comments** at this stage and will continue to monitor the project.

	Topic	Brief description	AASB staff comments
		The staff will provide a more detailed analysis of the D9 approach at a future meeting.	

Part E: Interpretations Committee work in progress

	Topic	Brief description	AASB staff comments
E1	IFRS 2 *Share-based Payment*—Price difference between the institutional offer price and the retail offer price for shares in an initial public offering	The Committee received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO). The Committee tentatively decided that the agenda criteria were not met for this submission because the issue does not appear to be widespread. Consequently, it asked the staff to prepare a tentative agenda decision for discussion at its November 2013 meeting.	AASB staff **agree** with the Committee's decision.
E2	IFRS 3 *Business Combinations*—Acquisition of control over a joint operation	The Committee received a request to clarify the accounting for the acquisition of an additional interest in a joint operation that is not structured through a separate vehicle, if the acquisition of the additional interest results in the acquirer obtaining control over the business of the joint operation. In particular, the question raised by the submitter was whether the previously held interest in the assets and liabilities of the joint operation is re-measured to its fair value at the date when control is obtained over the joint operation. The Committee decided not to address this issue as part of a separate project but to consider it together with other issues that were raised with the Committee in relation to joint arrangements. The staff will present a combined analysis of these issues and a recommendation at a future meeting.	The AASB, in its submission to the IASB on ED/2012/7 *Acquisition of an Interest in a Joint Operation*, requested that the IASB considers providing guidance on the accounting for step-up acquisitions in a joint operation. AASB staff **agree** with the Committee's decision to consider the issue together with other related issues.

	Topic	Brief description	AASB staff comments
E3	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Write-down of a disposal group and reversal of impairment losses relating to goodwill recognised for a disposal group	The Committee discussed two issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The first issue is about how to recognise an impairment loss for a disposal group classified as held for sale in accordance with IFRS 5. This issue arises in a circumstance in which the difference between the carrying amount of a disposal group and its fair value less costs to sell (FVLCTS) exceeds the carrying amount of the non-current assets in the disposal group that are within the measurement requirements of IFRS 5. The second issue is about whether a subsequent increase in FVLCTS of a disposal group (ie reversal of a past impairment) should be recognised if it relates to an impairment loss that had been recorded against goodwill in the disposal group classified as held for sale in accordance with IFRS 5. In the light of differing views among its members, the Committee asked the staff to: (a) look at these issues along with other IFRS 5 issues that the IASB had previously considered but not addressed; (b) consult current and former IASB staff and members who were involved with the development of IFRS 5; and (c) analyse the issues discussed using more complex fact patterns that illustrate further the interaction between non-current assets, current assets and liabilities in the disposal group. The staff will present this further work at a future meeting.	AASB staff have **no comments** at this stage and will continue to monitor the issue.