AASB Staff Summary of IFRS Interpretations Committee Decisions November 2013

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

- IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* —Transition provisions in respect of impairment, foreign exchange and borrowing costs;
- IFRS 10 *Consolidated Financial Statements*—Classification of puttable instruments that are non-controlling interests; and
- IAS 19 *Employee Benefits*—Actuarial assumptions: discount rate. (see Part A below)

The Committee also made tentative agenda decisions in relation to:

- IFRS 2 *Share-based Payment*—price difference between the institutional offer price and the retail offer price for shares in an initial public offering;
- IFRS 10 *Consolidated Financial Statements*: Investment Entities Amendments—Definition of investment-related services or activities;
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Distinction between a change in an accounting policy and a change in an accounting estimate;
- IAS 17 *Leases*—Meaning of 'incremental costs';
- IAS 39 *Financial Instruments: Recognition and Measurement*—Accounting for term-structured repo transaction;
- IFRIC 21 *Levies*—Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold (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 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* —Transition	The Committee received a request to clarify the transition provisions of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The transition provisions of IFRS 10 and IFRS 11 include exemptions from	Staff **agree** with the Committee's decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
	provisions in respect of impairment, foreign exchange and borrowing costs	retrospective application in specific circumstances. However, the submitter observes that IFRS 10 and IFRS 11 do not provide specific exemptions from retrospective application in respect of the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs* or IAS 36 *Impairment of Assets*. The Committee determined that the existing transition requirements of IFRS 10 and IFRS 11 provide sufficient guidance or exemptions from retrospective application and consequently decided not to add this issue to its agenda.	
A2	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 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 this issue to its agenda.
A3	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. The Committee recommends that this issue should be addressed in the IASB's research project on discount rates. Consequently, the Committee decided not to add this issue to its agenda.	Staff **agree** with the Committee's recommendation that this issue be addressed in the IASB's research project on discount rates and not to add the issue to the Committee's agenda.

Part B: Summary of tentative agenda decisions

	Topic	Brief description	AASB staff comments
B1	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 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. Consequently, the Committee [decided] not to add this issue to its agenda.	Staff **agree** with the Committee's tentative agenda decision.
B2	IFRS 10 *Consolidated Financial Statements*: Investment Entities Amendments—Definition of investment-related services or activities	The Committee received a request to clarify the definition of 'investment-related services or activities' as it relates to 'tax optimisation' intermediate subsidiaries. An investment entity is permitted to provide investment-related services or activities, either directly or through a subsidiary. If an investment entity provides investment-related services or activities through a subsidiary, the investment entity shall consolidate that subsidiary. Some investment entities establish wholly-owned intermediate subsidiaries in certain jurisdictions, which own all or part of the portfolio of investments in the group structure. The sole purpose of the intermediate subsidiaries is to minimise the tax paid by investors in the 'parent' investment entity. There is no other activity within the subsidiaries and the tax advantage comes about because of returns being channelled through the jurisdiction of the intermediate subsidiary. The submitter asked whether the 'tax optimisation' described should be considered investment-related services or activities. The Committee considered that in the light of its analysis of	Staff **agree** with the Committee's tentative decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
		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.	
B3	IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Distinction between a change in an accounting policy and a change in an accounting estimate	The Committee received a request to clarify the distinction between a change in an accounting policy and a change in an accounting estimate, in relation to the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The submitter stated that enforcers have identified divergent practices regarding the assessment of whether a change qualifies as a change in an accounting policy or as a change in an accounting estimate in accordance with IAS 8. The Committee observed that it would be helpful if more clarity were given to help entities make the distinction between a change in accounting policy and a change in accounting estimate, including clarity on how to deal with changes in the method of estimation. However, it considered that any amendment to the Standards would be too broad for it to address within the confines of existing IFRSs. Instead, the Committee considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the Conceptual Framework project. On the basis of the analysis above, the Committee [decided] not to add this issue to its agenda.	Staff **agree** with the Committee's tentative decision not to add this issue to its agenda.
B4	IAS 17 *Leases*—Meaning of 'incremental costs'	The Committee received a request for clarification about IAS 17 *Leases*. The submission relates to the meaning of 'incremental costs' within the context of IAS 17. The Committee determined that, in the light of the existing IFRS requirements, neither an Interpretation nor an amendment to IFRSs was necessary and consequently	Staff **agree** with the Committee's tentative decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
		[decided] not to add this issue to its agenda.	
B5	IAS 39 *Financial Instruments: Recognition and Measurement*—Accounting for term-structured repo transaction	The Committee received a request to clarify: ('Issue 1') whether an entity should account for three transactions separately or aggregate and treat them as a single derivative; and ('Issue 2') how to apply paragraph B.6 of Guidance on Implementing IAS 39 *Financial Instruments: Recognition and Measurement* in addressing Issue 1. The Committee considered that, in the light of its analysis of the existing IFRS requirements and guidance, an Interpretation was not necessary and consequently [decided] not to add this issue to its agenda.	Staff **agree** with the Committee's tentative decision not to add this issue to its agenda.
B6	IFRIC 21 *Levies*—Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold	The Committee received a request to clarify how the requirements in paragraph 8 of IFRIC 21 *Levies* should be interpreted in identifying an obligating event for a levy. The Committee discussed regimes in which an obligation to pay a levy arises as a result of activity during a period but is not payable until a minimum activity threshold, as identified by the legislation, is reached. The threshold is set as an annual threshold, but this threshold is reduced, pro rata to the number of days in the year that the entity participated in the relevant activity, if its participation in the activity started or stopped during the course of the year. The request asks for clarification on how the thresholds stated in the legislation should be taken into consideration when deciding "the activity that triggers the payment of the levy" in paragraph 8 of IFRIC 21. On the basis of its analysis, the Committee thought that the guidance in IFRIC 21 and IAS 37 is sufficient and noted that it is unlikely that significant diversity in interpretation	This issue was raised by the AASB.[1] Staff **disagree** with the Committee's tentative decision not to add the issue to its agenda. AASB staff continue to support the view expressed by the AASB in its submission that how "the activity that triggers the payment of the levy" should be interpreted in paragraph 8 of IFRIC 21 in assessing when a liability should be recognised is unclear. Some AASB staff can reluctantly accept not adding the issue to the Committee's agenda, but are concerned that the tentative agenda decision as drafted by the Committee includes content that is in the nature of a 'defacto interpretation'. In particular, these staff are concerned with the drafting that states '…the obligating event for the levy is the reaching of the threshold that applies at the end of the assessment period.' These staff recommend the Board writes to the Committee requesting the wording of the tentative agenda decision be amended to remove any interpretative guidance.

1 http://www.aasb.gov.au/admin/file/content102/c3/AASB_Letter_to_IFRS_IC_Levies.pdf

	Topic	Brief description	AASB staff comments
		on this issue will emerge. Accordingly, the Committee [decided] not to add this issue to its agenda.	Other AASB staff disagree with the technical view reflected in the tentative agenda decision. However, these staff respect the process by which the Committee came to its view and therefore do not recommend the Board writes to the Committee requesting the Committee reconsider the matter. These staff consider that the issue may be a matter that could be addressed via the IASB's review of its Conceptual Framework.

Part C: Issues considered for Annual Improvements

	Topic	Brief description	AASB staff comments
C1	IFRS 2 *Share-based Payment*—Measurement of cash-settled share-based payment transactions that include a performance condition	The Committee received a request to clarify the measurement of cash-settled share-based payment transactions that include a performance condition. Specifically, the request asked if a performance condition in a cash-settled share-based payment transaction should be taken into account when measuring the cash-settled share-based payment in a manner that is consistent with the way in which it is taken into account in an equity-settled share-based payment transaction in accordance with paragraphs 19–21A of IFRS 2. Although the Committee concluded that the proposed amendment meets the criteria for Annual Improvements, it recommends that the IASB should include it with other proposed narrow-scope amendments to IFRS 2.	Staff **agree** with the Committee's decision.

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 its previous meeting, the Committee tentatively decided that an 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. The Committee tentatively decided that: (a) benefit promises with vesting conditions and demographic risks should be within the scope of the project, and benefit promises with salary risk should remain beyond the scope of this project; (b) for recognition and measurement: 1. the defined benefit methodology set out in IAS 19 should be applied to the non-variable component; 2. for the variable component: i. the plan liability should be determined by the fair value of the underlying reference assets at the reporting date; ii. if a benefit is unvested at the reporting date, the measurement of the plan liability shall be determined by the extent to which the benefit is expected to vest in the future; iii. the measurement of the variable component should not consider the entity's credit risk, and therefore it should be measured based on the fair	Staff **agree** with the Committee's tentative agenda decisions and will continue to monitor the Committee's progress on this issue.

	Topic	Brief description	AASB staff comments
		value of the underlying assets without adjustment; iv. the variable component of a benefit promise is allocated to periods of service in line with the benefit formula; and (c) it should reaffirm its existing tentative decision that an entity should measure a promise of the 'higher-of' a variable and non-variable component at its intrinsic value at the reporting date. Notwithstanding the tentative decisions above, the Committee acknowledged that the scope of this project might be broader than it had envisaged, specifically depending on the definition of the variable components of the plans that fall within the agreed scope. The Committee will discuss at a future meeting how to proceed with this project.	

Part E: Interpretations Committee work in progress

	Topic	Brief description	AASB staff comments
E1	IFRS 10 *Consolidated Financial Statements*: Investment Entities Amendments—Investment entity subsidiary that provides investment-related services	The Committee received a request to clarify the accounting by an investment entity that has an investment entity subsidiary that provides investment-related services. The Investment Entity amendments introduced an exception to the consolidation requirement that an investment entity shall measure its investments in subsidiaries at fair value. There is an exception to the exception: if a subsidiary provides investment-related services, the investment entity shall not measure this subsidiary at fair value and the investment entity shall consolidate the subsidiary instead. The Committee noted that it is not clear how to account for a subsidiary that is both an investment entity subsidiary and provides investment-related services. Accordingly, the Committee decided to add this issue to its agenda. The staff will present wording for the proposed amendment at a future meeting. The Committee also observed that analysing this issue requires clarity about what services are provided, and to whom, in order for these services to qualify as investment-related services. The staff will consider this as part of their analysis at a future meeting.	Staff **agree** with the Committee's decision to add this issue to its agenda.
E2	IFRS 10 *Consolidated Financial Statements*: Investment Entities Amendments—Interaction between the investment entity amendments and the exemption from preparing consolidated financial	The Committee received a request to clarify whether the exemption set out in paragraph 4 of IFRS 10, namely that an intermediate parent need not present consolidated financial statements, is available to entities that, as a result of the Investment Entities amendments, are measured at fair value in the consolidated financial statements of the parent entity. Specifically, the issue presented to the Committee is whether an intermediate parent (that is not an investment entity) can use the exemption from preparing consolidated	Staff **agree** that more analysis of this issue is required and will continue to monitor this issue.

	Topic	Brief description	AASB staff comments
	statements in IFRS 10	financial statements if it is reflected at fair value in its investment entity parent's financial statements. The staff will prepare a further analysis of the consequences of applying the exemption from the requirement to present consolidated financial statements in such circumstances. The Committee will discuss this matter at a future meeting.	
E3	IFRS 11 *Joint Arrangements*—Summary of outreach on implementation issues	The Committee received several requests with regard to the application of the requirements of IFRS 11 *Joint Arrangements*. At this meeting, the staff presented a summary of the results of the outreach that was conducted on implementation issues arising from IFRS 11. The Committee identified the following priority issues for further consideration: (1) whether an assessment of 'other facts and circumstances' should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms and (2) how the parties to a joint operation should recognise assets, liabilities, revenues and expenses, especially if the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation. The Committee asked the staff to identify the issues that would require further guidance and the issues that can be resolved within the context of the current Standards. The staff will present an analysis at a future meeting	At this meeting the Committee noted the 'step-up acquisitions' issue the AASB raised in its comment letter to the IASB on ED/2012/7 *Acquisition of an Interest in a Joint Operation* as one of the implementation issues the Committee discussed. Staff **agree** with the Committee's decision that further analysis of the issues should be conducted and prioritised.
E4	IAS 12 *Income Taxes*—Recognition and measurement of deferred tax assets when an entity is loss-making	The Committee received a request for guidance on the recognition and measurement of deferred tax assets when an entity is loss-making. The Committee was asked to clarify two issues: (a) whether IAS 12 requires that a deferred tax asset is	Staff **agree** with the Committee's tentative agenda decision not to add the issue of whether IAS 12 requires that a deferred tax asset is recognised regardless of an entity's expectations of future tax losses when there are suitable reversing taxable temporary differences (issue (a)) to its agenda.

	Topic	Brief description	AASB staff comments
		recognised regardless of an entity's expectations of future tax losses when there are suitable reversing taxable temporary differences; and (b) how the guidance in IAS 12 is applied when tax laws limit the extent to which losses can be recovered against future profits. Regarding the first issue, the Committee noted that according to paragraphs 28 and 35 of IAS 12, a deferred tax asset is recognised to the extent of the taxable temporary differences of an appropriate type that reverse in an appropriate period. The reversing taxable temporary differences enable the utilisation of the deductible temporary differences and are sufficient to justify the recognition of deferred tax assets. Consequently, it is not necessary to take into consideration future tax losses. The Committee tentatively decided that the agenda criteria were not met for this issue and requested that the staff should prepare a tentative agenda decision for discussion at its January 2014 meeting. The Committee had a preliminary discussion on the second issue and directed the staff to do some further analysis, including presenting a recommendation at a future Committee meeting.	Staff will continue to monitor the Committee's discussions on the issue of how the guidance in IAS 12 is applied when tax laws limit the extent to which losses can be recovered against future profits (issue (b)).
E5	Accounting for Interests in Joint Operations structured through Separate Vehicles	The Committee discussed the joint operator's accounting in its separate IFRS-financial statements for an interest in a joint operation that is housed in a separate entity. This was within the context of a consultation by the IASB to help the IASB assess the magnitude of accounting issues in the separate IFRS-financial statements of the joint operator when the joint operation is housed in a separate vehicle. The staff will present the results from the Committee's	Staff **agree** with the Committee's observations about the joint operator's accounting in its separate financial statements and will continue to monitor the project.

	Topic	Brief description	AASB staff comments
		discussion at a future IASB meeting.	