

AASB Staff Summary of IFRS Interpretations Committee Decisions January 2014

At the IFRS Interpretations Committee (Committee) meeting held on 29-30 January 2014, the Committee made final agenda decisions relating to:

- IAS 29 *Financial Reporting in Hyperinflationary Economies*—applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units;
- IAS 32 *Financial Instruments: Presentation*—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; and
- IAS 32 *Financial Instruments: Presentation*—classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent ‘not-viability’ event. (see Part A below)

The Committee also made tentative agenda decisions in relation to:

- IFRS 3 *Business Combinations*—identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement;
- IFRS 11 *Joint Arrangements*—Classification or joint arrangements;
- IAS 1 *Presentation of Financial Statements*—issues related to the application of IAS 1;
- IAS 12 *Income Taxes*—recognition and measurement of deferred tax assets when an entity is loss-making;
- IAS 12 *Income Taxes*—impact of an internal reorganisation on deferred tax amounts related to goodwill;
- IAS 12 *Income Taxes*—threshold of recognition of an asset in the situation in which the tax position is uncertain;
- IAS 16 *Property, Plant and Equipment*—disclosure of carrying amounts under the cost model;
- IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions;
- IAS 32 *Financial Instruments: Presentation*—accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor; and
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—measurement of liabilities arising from emission trading schemes. (see Part B below)

The Committee also discussed issues considered for Annual Improvements (see Part C below), issues considered for narrow-scope amendments (see Part D below), issues in its current agenda (see Part E below) and other issues (see Part F 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	IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> —applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units	<p>The Interpretations Committee considered the following two questions:</p> <ul style="list-style-type: none"> • whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units that is described in the <i>Conceptual Framework for Financial Reporting</i> when the entity's functional currency is not the currency of a hyperinflationary economy as described in IAS 29; and • if such use is permitted, whether the entity needs to apply IAS 29 to its financial statements prepared using a specific model of that concept of financial capital maintenance when it falls within the scope of IAS 29. <p>The Interpretations Committee observed that the guidance in the <i>Conceptual Framework</i> is written to assist the IASB in the development of Standards. It is also used in the development of an accounting policy only when no Standards specifically apply to a particular transaction, other event or condition, or deal with similar and related issues. Consequently the guidance in the <i>Conceptual Framework</i> relating to the use of a particular capital maintenance concept cannot be used to override the requirements of any Standard, and an entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in a particular Standard, when applying that Standard.</p> <p>In addition, the Interpretations Committee noted that the results of the outreach indicate that these issues are not widespread. For this reason the Interpretations Committee decided not to add these issues to its agenda.</p>	Staff have no comments on this issue at this stage and will continue to monitor the project
A2	IAS 32 <i>Financial instruments: Presentation</i> —a financial instrument that is mandatorily	The Interpretations 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. The instrument	Staff agree with the Committee's decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
	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	<p>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 the 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:</p> <ul style="list-style-type: none"> (a) deliver the maximum number of equity instruments specified in the contract; and (b) pay in cash all of the interest that would have been payable if the instrument had remained outstanding until its maturity date. <p>The Interpretations Committee noted that the definitions of <i>financial asset</i>, <i>financial liability</i> and <i>equity instrument</i> in IAS 32 are based on the financial instrument's contractual rights and contractual obligations. However, paragraph 15 of IAS 32 requires the issuer of a financial instrument to classify the instrument in accordance with the substance of the contractual arrangement. Consequently, the Interpretations Committee noted that if a contractual term of a financial instrument lacks substance, that contractual term would be excluded from the classification assessment of the instrument.</p> <p>The Interpretations Committee noted that the issuer cannot assume that a financial instrument (or its components) meets the definition of an equity instrument simply because the issuer has the contractual right to settle the financial instrument by delivering a fixed number of its own equity instruments. The Interpretations Committee noted that judgement will be required to determine whether the issuer's early settlement option is substantive and thus should be considered in determining how to classify the instrument. If the early settlement option is not substantive, that term would not be considered in determining the classification of the financial</p>	<p>However, staff continue to consider that the wording concerning determining whether the settlement option is 'substantive' is lengthy and could appear to be prescriptive.</p> <p>Staff will continue to monitor the project.</p>

	Topic	Brief description	AASB staff comments
		<p>instrument.</p> <p>The Interpretations Committee noted that the guidance in paragraph 20(b) of IAS 32 is relevant because it provides an example of a situation in which one of an instrument's settlement alternatives is excluded from the classification assessment. Specifically, the example in that paragraph describes an instrument that the issuer will settle by delivering either cash or its own shares and states that one of the settlement alternatives should be excluded from the classification assessment in some circumstances.</p> <p>The Interpretations Committee noted that to determine whether the early settlement option is substantive, the issuer will need to understand whether there are actual economic or other business reasons that the issuer would exercise the option. In making that assessment, the issuer could consider, along with other factors, whether the instrument would have been priced differently if the issuer's early settlement option had not been included in the contractual terms. The Interpretations Committee also noted that factors such as the term of the instrument, the width of the range between the cap and the floor, the issuer's share price and the volatility of the share price could be relevant to the assessment of whether the issuer's early settlement option is substantive. For example, the early settlement option may be less likely to have substance— especially if the instrument is short-lived—if the range between the cap and the floor is wide and the current share price would equate to the delivery of a number of shares that is close to the floor (ie the minimum). That is because the issuer may have to deliver significantly more shares to settle early than it may otherwise be obliged to deliver at maturity.</p> <p>The Interpretations 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</p>	

	Topic	Brief description	AASB staff comments
		decided not to add the issue to its agenda.	
A3	IAS 32 <i>Financial Instruments: Presentation</i> —classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent ‘not-viability’ event.	<p>The Interpretations 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 nonviability 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.</p> <p>Specifically the Interpretations Committee discussed the following issues:</p> <ul style="list-style-type: none"> (a) Whether the financial instrument meets the definition of a financial liability in its entirety or must be classified as a compound instrument comprised of a liability component and an equity component (and, in the latter case, what those components reflect); and (b) How the financial liability (or liability component) identified above in bullet a. would be measured. <p>The Interpretations Committee decided not to add this issue to its agenda. The Interpretations Committee noted that the scope of the issues raised in the submission is too broad for it to address in an efficient manner.</p>	Staff agree with the Committee’s decision not to add this issue to its agenda.

Part B: Summary of tentative agenda decisions

	Topic	Brief description	AASB staff comments
B1	IFRS 3 <i>Business Combinations</i> —identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 <i>Consolidated Financial Statements</i> in a stapling arrangement	<p>The Interpretations Committee received a request to clarify the interaction of the requirements in IFRS 3 <i>Business Combinations</i> (as revised in 2008) for identifying an acquirer with the requirements in IFRS 10 for deciding whether control exists. More specifically, the submitter is seeking clarification of whether an acquirer identified for the purpose of IFRS 3 (as revised in 2008) is a parent for the purpose of IFRS 10 in circumstances in which a business combination is achieved by contract alone, such as a stapling arrangement, with no combining entity obtaining control of the other combining entities.</p> <p>Notwithstanding the fact that IFRS 3 (as revised in 2008) includes business combinations in which none of the combining entities obtains control of the other combining entities, the Interpretations Committee noted that paragraph 6 of the Standard requires that one of the combining entities in a business combination is identified as the acquirer.</p> <p>The Interpretations Committee observed that the IASB’s statement on the interaction between IFRS 3 (issued in 2004) and IAS 27 remains valid in respect of the interaction between IFRS 3 (as revised in 2008) and IFRS 10. Consequently, the Interpretations Committee observed that the combining entity in the stapling arrangement that is identified as the acquirer for the purpose of IFRS 3 (as revised in 2008) should prepare consolidated financial statements of the combined entity in accordance with IFRS 10.</p> <p>The Interpretations Committee noted that there is little diversity in practice for the accounting for business combinations achieved by contract alone. It further noted that it does not expect diversity to emerge in the future on the basis of the analysis on the requirements and guidance in IFRS 3 (as revised in 2008) and IFRS 10.</p>	<p>This issue was raised by the AASB. and staff can accept the decision as it in line with staff views that:</p> <ul style="list-style-type: none"> • a business combination can occur under IFRS 3 where none of the combining entities have control; and • the acquirer identified under IFRS 3 for such business combinations would be the parent for the purposes of preparing consolidated financial statements under IFRS 10.

	Topic	Brief description	AASB staff comments
		Accordingly, the Interpretations Committee [decided] not to add this issue to its agenda.	
B2	IFRS 11 <i>Joint Arrangements</i> —Classification or joint arrangements	<p>The Interpretations Committee received a request to clarify how the assessment of ‘other facts and circumstances’ described in IFRS 11 <i>Joint Arrangements</i> affects the classification of a joint arrangement as a joint operation or a joint venture.</p> <p>The Interpretations Committee considered whether the assessment of ‘other facts and circumstances’ should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity’s business needs and the entity’s past practices.</p> <p>The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, no Interpretation or amendment to the Standard was required. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.</p>	Staff agree with the Committee’s decision not to add the issue to the agenda.
B3	IAS 1 <i>Presentation of Financial Statements</i> —issues related to the application of IAS 1	<p>The Interpretations Committee received a request to clarify the application of some of the presentation requirements in IAS 1. The submitter expressed a concern that the absence of definitions in IAS 1 and the lack of implementation guidance give significant flexibility that may impair the comparability and understandability of financial statements. The submitter provided examples in the following areas:</p> <ul style="list-style-type: none"> • presentation of expenses by function; • presentation of additional lines, headings and subtotals; • presentation of additional statements or columns in the primary statements; and 	Staff agree with the Committee’s decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
		<ul style="list-style-type: none"> • application of the materiality and aggregation requirements. <p>On the basis of the existing principles in IAS 1 and the fact that some of the issues raised have been brought to the attention of the IASB during the agenda consultation and have been discussed as part of the IASB's Disclosure Initiative project, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard should be made and consequently [decided] not to add this issue to its agenda.</p>	
B4	IAS 12 <i>Income Taxes</i> —recognition and measurement of deferred tax assets when an entity is loss-making	<p>The Interpretations Committee received a request for guidance on the recognition and measurement of deferred tax assets when an entity is loss-making. The Interpretations Committee was asked to clarify two issues:</p> <ul style="list-style-type: none"> • whether IAS 12 <i>Income Taxes</i> requires that a deferred tax asset is recognised for the carry forward of unused tax losses when there are suitable reversing taxable temporary differences regardless of an entity's expectations of future tax losses; and • how the guidance in IAS 12 is applied when tax laws limit the extent to which tax losses brought forward can be recovered against future taxable profits. <p>In the tax systems considered for the second issue the amount of tax losses brought forward that can be recovered in each tax year is limited to a specified percentage of the taxable profits of that year.</p> <p>The Interpretations Committee noted that according to paragraphs 28 and 35 of IAS 12:</p> <ul style="list-style-type: none"> • a deferred tax asset is recognised for the carry forward of unused tax losses to the extent of the taxable temporary differences, of an appropriate type, that reverse in an appropriate period. The reversal of those taxable temporary 	AASB staff agree with the Committee decisions.

	Topic	Brief description	AASB staff comments
		<p>differences enables the utilisation of the unused tax losses and justifies the recognition of deferred tax assets. Consequently, future tax losses are not considered.</p> <ul style="list-style-type: none"> • when tax laws limit the extent to which unused tax losses can be recovered against future taxable profits in each year, the amount of deferred tax assets recognised from unused tax losses as a result of suitable taxable temporary differences is restricted as specified by the tax law. This is because, when the suitable taxable temporary differences reverse, the amount of tax losses that can be utilised by that reversal is reduced as specified by the tax law. • in both cases, if the unused tax losses exceed the amount of suitable taxable temporary differences (after taking into account any restrictions), an additional deferred tax asset is recognised only if the requirements in paragraphs 29 and 36 of IAS 12 are met (ie to the extent that it is probable that the entity will have appropriate future taxable profit, or to the extent that tax planning opportunities are available to the entity that will create appropriate taxable profit). <p>On the basis of the analysis above the Interpretations Committee concluded that neither an Interpretation nor an amendment to the Standard was needed and consequently [decided] not to add these issues to its agenda.</p>	
B5	IAS 12 <i>Income Taxes</i> —impact of an internal reorganisation on deferred tax amounts related to goodwill	<p>The Interpretations Committee received a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity.</p> <p>The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined</p>	Staff agree with the Committee's decision not to add this issue to its agenda.

	Topic	Brief description	AASB staff comments
		<p>separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.</p> <p>The Interpretations Committee also noted that when calculating the deferred tax amount for the consolidated financial statements:</p> <ul style="list-style-type: none"> • the amount used as the carrying amount for an asset or a liability is the amount included in the consolidated financial statements; and • the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements. <p>The Interpretations Committee noted that transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12. Consequently, it noted that deferred tax would be recognised for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12).</p> <p>The Interpretations Committee also noted that if there is a so-called 'outside basis difference' (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment), deferred tax for such a temporary difference would also be recognised subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).</p> <p>The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were</p>	

	Topic	Brief description	AASB staff comments
		sufficient and therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.	
B6	IAS 12 <i>Income Taxes</i> —threshold of recognition of an asset in the situation in which the tax position is uncertain	<p>The Interpretations Committee received a request for guidance on the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the charge. In the situation described by the submitter the entity expects, but is not certain, to recover some or all of that cash. The Interpretations Committee was asked to clarify whether IAS 12 <i>Income Taxes</i> (and a ‘probable’ threshold) is applied to determine whether to recognise an asset, or whether the guidance in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> (and a ‘virtually certain’ threshold) should be applied.</p> <p>The Interpretations Committee noted that paragraph 12 of IAS 12 provides sufficient guidance on the recognition of current tax assets and current tax liabilities. It states that: current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.</p> <p>The Interpretations Committee observed that, in this specific fact pattern, an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due which is an uncertain amount).</p> <p>On the basis of the analysis above the Interpretations Committee [decided] not to add these issues to its agenda.</p>	Staff agree with the Committee’s decision not to add this issue to its agenda.
B7	IAS 16 <i>Property, Plant and Equipment</i> —disclosure of carrying	The Interpretations Committee received a request for clarification about IAS 16. The submission relates to whether an entity is required to reflect the capitalisation of borrowing costs to meet the	Staff agree with the Committee’s decision not to add this issue to its

	Topic	Brief description	AASB staff comments
	amounts under the cost model	<p>disclosure requirement in paragraph 77(e) of IAS 16 for assets stated at revalued amounts.</p> <p>The submitter asserted that the capitalisation of borrowing costs for these assets to meet disclosure requirements is burdensome, and suggested that it should not be a requirement of IAS 16 to capitalise these costs for the note disclosure.</p> <p>The Interpretations Committee noted, as acknowledged by the submitter, that the requirements in paragraph 77(e) of IAS 16 are clear. This paragraph requires an entity to disclose the amount at which assets stated at revalued amounts would have been stated at had those assets been carried under the cost model. The amount to be disclosed includes borrowing costs capitalised in accordance with IAS 23.</p> <p>The Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.</p>	agenda.
B8	IAS 19 <i>Employee Benefits</i> —Employee benefit plans with a guaranteed return on contributions or notional contributions	<p>The Interpretations Committee observed that the accounting for the plans that fall within the scope of the project is an important issue. These plans are part of a growing range of plan designs that incorporate features that were not envisaged when IAS 19 was first developed. The accounting for these plans in accordance with IAS 19 is problematic and has resulted in diversity in practice.</p> <p>In the Interpretations Committee's view, developing accounting requirements for these plans would be better addressed by a broader consideration of accounting for employee benefits, potentially through the research agenda of the IASB. The Interpretations Committee acknowledged that reducing diversity in practice in the short term would be beneficial. However, because of the difficulties encountered in progressing the issues, the Interpretations</p>	<p>Staff agree with the Committee's decision not to add this issue to its agenda.</p> <p>Staff also agree with the Committee's view that the issue be considered through the research agenda of the IASB.</p>

	Topic	Brief description	AASB staff comments
		Committee [decided] to remove the project from its agenda.	
B9	IAS 32 <i>Financial Instruments: Presentation</i> —accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor	<p>The Interpretations Committee discussed how an issuer would account for a particular mandatorily convertible financial instrument in accordance with IAS 32 and IAS 39 or IFRS 9. The financial 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, which limit and guarantee, respectively, the number of equity instruments to be delivered.</p> <p>The Interpretations Committee noted that the instrument is a non-derivative instrument that meets the definition of a financial liability in paragraph 11(b)(i) of IAS 32 because the issuer has a contractual obligation to deliver a variable number of its own equity instruments. Although the variability is limited by the cap and the floor, the number of equity instruments that the issuer is obliged to deliver is not fixed and therefore the instrument does not meet the definition of equity. The Interpretations Committee noted that it is inappropriate to consider that there are separate conversion features for each of the scenarios in which the issuer will deliver a different number of its own equity instruments because the conversion outcomes are mutually exclusive. That is, IAS 32 does not permit an issuer to divide a conversion feature into multiple outcomes for the purposes of evaluating whether the instrument contains a component that meets the definition of equity in that Standard.</p> <p>Furthermore, the Interpretations Committee noted that the cap and the floor are embedded derivative features whose values change in response to the price of the issuer's equity share. Therefore, assuming that the issuer has not elected to designate the entire instrument under the fair value option, the issuer must separate those embedded derivative features from the host liability contract and account for them at fair value through profit or loss in accordance with IAS 39 or IFRS 9.</p>	<p>Staff agree with the Committee's decision not to add this issue to its agenda.</p> <p>However, staff disagree that the view presented is the only valid interpretation, and continue to be of the view that alternative views may be supportable. The wording does not clearly provide a rationale from IAS 32 to justify why alternative views cannot be supported.</p> <p>Staff recommend the AASB consider writing to the Committee regarding this issue.</p>

	Topic	Brief description	AASB staff comments
		<p>The Interpretations 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.</p>	
B10	<p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>—measurement of liabilities arising from emission trading schemes</p>	<p>The Interpretations Committee received a request to clarify the measurement of a liability under IAS 37 that arises from an obligation to deliver allowances in an emission trading scheme.</p> <p>The request asked if the measurement of the liability for the obligation to deliver allowances should reflect current values of allowances at the end of each reporting period if IAS 37 was applied to the liability. The request noted that this was the basis required by IFRIC 3 <i>Emission Rights</i>, which was withdrawn in June 2005.</p> <p>The Interpretations Committee noted that when the IASB withdrew IFRIC 3, it affirmed that IFRIC 3 was an appropriate interpretation of existing IFRS for accounting for the emission trading schemes that were within the scope of IFRIC 3. However, the IASB acknowledged that, as a consequence of following existing IFRS, IFRIC 3 created unsatisfactory measurement and reporting mismatches between assets and liabilities arising from emission trading schemes.</p> <p>In 2012, the IASB added to its agenda a research project on the accounting for emissions trading schemes. The Interpretations Committee noted that one of the main issues in the IASB's project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets. Consequently the Interpretations Committee noted that it would be difficult for it to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances without also considering the accounting for the</p>	<p>This issue was raised by the AASB.</p> <p>Staff think that the Committee has steered away from addressing the issue of recognising an IAS 37 liability at current value. While the AASB raised the issue in the context of recognising emission liabilities under emission trading schemes, the AASB query had a broader and more general aspect. We do not understand why the Committee is trying to link the emission liability and the asset (permits to extinguish that liability) in terms of accounting. Such a link as we have noted in our query to the Committee has arisen out of inconsistent practice, largely in Europe, after withdrawal of IFRIC 3 <i>Emission Rights</i>.</p> <p>The IASB project on ETS is at a research stage and we are not aware of any progress under that project in relation to accounting for emission liabilities. In our conversations with the Committee staff in charge of preparing a paper on our enquiry, they noted that the IASB seems to</p>

	Topic	Brief description	AASB staff comments
		<p>allowances.</p> <p>On the basis of the analysis above, the Interpretations Committee [decided] not to add this issue to its agenda because this issue is too broad for it to deal with.</p>	<p>see the accounting for assets and liabilities under ETSS as a package, that is they are raising some ‘unit of account’ considerations which we think in the absence of a firm decision by the IASB on this issue is a bold statement at this stage and does not explain why the Committee has not considered the AASB’s IAS 37 liability enquiry.</p> <p>Staff recommend that the AASB write to the Committee and the IASB on the matter and give reasons why an answer to recognition of an IAS 37 liability cannot wait the outcome of the ETS research project. In Australia, the key reason that clarification is required is that projects, including Emissions Trading Schemes, rely on the requirements of IAS 37 for the recognition of liabilities.</p>

Part C: Issues considered for Annual improvements

	Topic	Brief description	AASB staff comments
C1	IFRS 10 <i>Consolidated Financial Statements</i> —an investment entity subsidiary that also provides investment-related services	<p>The Interpretations Committee received a request to clarify the accounting by an investment entity that has an investment entity subsidiary that also provides investment-related services.</p> <p>According to the submitter, where an investment entity’s subsidiary is itself an investment entity (and has investees measured at fair value) and, additionally, provides investment-related services, it is unclear whether the investment entity parent should measure that subsidiary at fair value or consolidate it.</p> <p>At this meeting, the Interpretations Committee reviewed the IASB’s discussions during the development of the Investment Entity amendments and noted that the IASB separately discussed the circumstances in which an investment entity provides investment-related services to its investors, investment-related services to third parties and investment-related activities to investees.</p> <p>The Interpretations Committee thought that the IASB’s decision was clear that an investment entity parent should account for an investment entity subsidiary at fair value when that investment entity subsidiary provides investment-related services to its investors or when it carries out investment-related activities in relation to its investees. The Interpretations Committee acknowledged that the Standard does not give guidance on the accounting by an investment entity parent for an investment entity subsidiary when that investment entity subsidiary also provides investment-related services to third parties. The Interpretations Committee tentatively concluded that an investment entity parent should account for all investment entity subsidiaries in the same way, ie at fair value. Consequently, the Interpretations Committee proposed that this accounting should be made clear through Annual Improvements.</p>	Staff agree with view of the Committee to provide clarification through Annual Improvements.

Part D: Issues considered for narrow-scope amendments

	Topic	Brief description	AASB staff comments
D1	IAS 28 <i>Investments in Associates and Joint Ventures</i> —inconsistency with paragraph 31 of IAS 28	<p>In its July 2013 meeting, the Interpretations Committee recommended that the IASB should proceed with the amendments to IFRS 10 and IAS 28 entitled <i>Accounting for the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>. At that meeting it also considered whether or not to propose that 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. The perceived conflict is that:</p> <ul style="list-style-type: none"> • Paragraph 31 of IAS 28 requires that the accounting for the gain or loss resulting from the contribution of non-monetary assets depends on whether an equity interest or other assets are received in exchange. A full gain is recognised on the contribution relating to the other assets received and a partial gain is recognised on the contribution relating to the equity interest received. • In the <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> project, the IASB tentatively decided that all sales and contributions of assets (that do not constitute a business) between an investor and its associate or joint venture should be accounted for consistently. A partial gain should be recognised in those cases (except when the contribution lacks commercial substance). <p>At this meeting, the Interpretations Committee considered further analysis of the issue and concluded that paragraph 31 of IAS 28 is not consistent with the forthcoming amendments to (and the existing requirements of) IAS 28. It also noted that the deletion of paragraph 31 of IAS 28 would not have significant unintended consequences. Consequently, the Interpretations Committee recommended that the IASB should delete this paragraph from IAS 28.</p>	Staff agree with the Committee's recommendation that the IASB should delete paragraph 31 of IAS 28.

Part E: IFRS IC Current agenda

	Topic	Brief description	AASB staff comments
E1	IAS 10 <i>Consolidated Financial Statements</i> —exemption from preparing consolidated financial statements requirements in IFRS 10: Applicability to a subsidiary of an investment entity	<p>The Interpretations Committee received a request to clarify whether the exemption set out in paragraph 4 of IFRS 10, namely that an intermediate parent that meets certain conditions need not present consolidated financial statements, is available to an entity that is measured at fair value in the financial statements of its investment entity parent. Specifically, the issue presented to the Interpretations Committee is whether an intermediate parent (that is not itself an investment entity) can use the exemption from preparing consolidated financial statements if it is reflected at fair value in its investment entity parent's financial statements and has no other ultimate or any intermediate parent that produces consolidated financial statements.</p> <p>The Interpretations Committee asked the staff to consult the IASB on this issue, with a view to proposing a clarification to IFRS 10 on this matter.</p>	Staff agree with the Committee's decision to ask Committee staff to consult with the IASB with the view of clarifying IFRS 10.
E2	IAS 28 <i>Investments in Associates and Joint Ventures</i> —application of the equity method by a non-investment entity investor to an investment entity investee	<p>The Interpretations Committee received a request to clarify how an entity that is not an investment entity should apply the equity method of accounting for its investment in a joint venture that is an investment entity.</p> <p>The Interpretations Committee members expressed mixed views on this matter and were unable to reach a conclusion at this meeting. The Interpretations Committee noted that the IASB staff plan to start discussions on its research project on the equity method of accounting in May 2014. The Interpretations Committee asked that the staff report back to the Interpretations Committee following the IASB's initial discussions on the research project.</p>	<p>Staff agree with the Committee's decision to ask staff to report back following the IASB's initial discussions on the research project. Staff think the IASB should clarify the accounting as part of its research project on the equity method of accounting.</p> <p>Staff will continue to monitor the project.</p>
E3	IFRS 11 <i>Joint Arrangements</i> —analysis of implementation issues	The Interpretations Committee received several requests with regard to the application of the requirements of IFRS 11 <i>Joint Arrangements</i> .	AASB staff have no comments at this stage and will continue to monitor the project.

	Topic	Brief description	AASB staff comments
		<p>At its November 2013 meeting, the Interpretations Committee identified the following two priority issues for further consideration:</p> <ul style="list-style-type: none"> • (Issue 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 • (Issue 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. <p>At this meeting, the staff presented an analysis of Issue 1. This analysis covered the following five sub-issues:</p> <ul style="list-style-type: none"> • Issue 1A—Should the assessment of ‘other facts and circumstances’ be based only on contractual (and legal) enforceable terms? • Issue 1B—Does the fact that the output from the joint arrangement is sold at a market price prevent the joint arrangement from being classified as a joint operation, when assessing ‘other facts and circumstances’? • Issue 1C—Does financing from a third party prevent an arrangement from being classified as a joint operation? • Issue 1D—Does the nature of the output produced by the joint arrangement determine the classification of a joint arrangement when assessing ‘other facts and circumstances’? • Issue 1E—When assessing ‘other facts and circumstances’ in the case in which parties are taking substantially all of the output, is the assessment based on volumes or monetary values? <p>With regard to Issue 1A, the Interpretations Committee tentatively decided not to add the issue to its agenda. The Interpretations</p>	

	Topic	Brief description	AASB staff comments
		<p>Committee's tentative agenda decision on this issue is included in the section 'Interpretations Committee tentative agenda decisions' of this IFRIC Update.</p> <p>With regard to the other issues considered, the Interpretations Committee noted that it is important to understand how and why particular facts and circumstances create rights and obligations that result in the joint arrangement being classified as a joint operation. The Interpretations Committee asked the staff to develop examples to analyse this matter.</p> <p>The staff will present this analysis at a future meeting.</p>	
E4	IAS 12 <i>Income Taxes</i> —recognition of deferred tax assets for unrealised losses	<p>At its meeting in May 2013, the Interpretations Committee tentatively decided to:</p> <ul style="list-style-type: none"> • recommend to the IASB that it should amend IAS 12 to clarify that deferred tax assets for unrealised losses on debt instruments measured at fair value are recognised, unless recovering the debt instruments by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses; and • consult with the IASB on the approach that is to be the basis for the amendment before discussing further details and drafting a proposed amendment. <p>At this meeting, the Interpretations Committee analysed feedback from the consultation with IASB members and tentatively decided to confirm its recommended approach and to draft an amendment to IAS 12 that illustrates the application of the existing principles of IAS 12 in accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.</p> <p>The staff will present a draft amendment to IAS 12 in a future Interpretations Committee meeting.</p>	Staff agree with the Committee's tentative decision.

	Topic	Brief description	AASB staff comments
E5	IAS 34 <i>Interim Financial Reporting</i> —condensed statement of cash flows	<p>The Interpretations Committee received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 <i>Interim Financial Reporting</i>.</p> <p>The submitter observed that there are divergent views on the application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows. One view is that an entity could present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity could present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.</p> <p>The Interpretations Committee concluded that an amendment to the Standard was not required and directed the staff to draft a tentative agenda decision that would reflect the existing principles in IAS 34 for presenting condensed financial information in the interim period. The staff will bring a draft tentative agenda decision to a future meeting for discussion by the Interpretations Committee.</p>	Staff agree with the Committee's decision for IASB staff to draft a tentative agenda decision and discuss the issue during a future meeting.

Part F: Other Issues

	Topic	Brief description	AASB staff comments
F1	IAS 1 <i>Presentation of Financial Statements</i> —disclosure requirements about an assessment of going concern	<p><i>Update on the IASB's decision not to proceed</i></p> <p>The Interpretations Committee received a request for clarification about disclosures relating to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern. In January 2013 it recommended that the IASB should make a narrow-scope amendment to IAS 1 that would address when these disclosures should be made and what information should be disclosed in accordance with these requirements. These proposals were discussed by the IASB at its March 2013 and November 2013 meetings.</p> <p>The IASB acknowledged that the proposed disclosures would provide useful information to investors and creditors. However, some members of the IASB thought that the proposed amendment would result in boilerplate disclosures about a range of risks that would obscure relevant disclosures about going concern and would contribute to disclosure overload. Some were not persuaded that further guidance was needed and that this is a topic that is better handled through local regulatory or audit guidance.</p> <p>The Interpretation Committee was informed of the IASB's decision not to proceed with the proposed amendment and noted the reasons given by the IASB for its decision. Many members of the Interpretation Committee expressed concerns about the implications of the IASB's decision and asked the staff to report those concerns to the IASB leadership.</p>	As noted in the AASB letter to the IASB (Agenda Paper 3.4), staff share the concerns of the members of the Committee regarding the implications of the IASB's decision and agrees with the Committee's action of requesting Committee staff to report the concerns to IASB leadership.