



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	19 August 2014
<b>From:</b>	<b>Nikole Gyles and Mitchell Bryce</b>	<b>Agenda Item:</b>	4.1 (M140)
<b>Subject:</b>	<b>IFRS Interpretations Committee Update</b>	<b>File:</b>	

## Action

Receive an update on the recent IFRS Interpretations Committee (Committee) related activities (including Committee staff outreach requests sent to AASB staff) and decide whether there are any issues that need to be raised with the Committee at this stage.

## Attachments

Agenda paper 4.2 AASB Staff Summary of IFRS IC Decisions – July 2014

Agenda paper 4.3 *IFRIC Update* July 2014

## IFRS Interpretations Committee July 2014 meeting

The Committee met on 15-16 July 2014. At that meeting, the Committee made several final and tentative agenda decisions that are discussed in agenda paper 4.2.

## Staff recommendations

### *Core inventories*

As noted in Agenda Paper 4.2, **AASB staff disagree** with the Committee's decision in relation to Core Inventories (issue B2 in Agenda paper 4.2). While **AASB staff agree** this issue is too broad for the Committee to deal with, **AASB staff disagree** with the Committee's basis for proposing to remove the item from the agenda. As specifically identified in Committee Agenda Paper 4B, although diversity in practice is not prevalent *within industries*, diversity is prevalent *between industries*. Consequently, **AASB staff think** that the issue should be further considered by the Committee.

Accordingly, **AASB staff recommend** the AASB write to the Committee, questioning the basis for removing the issue from its agenda, and recommending the issue be considered further.

## Question 1 to the Board

Does the Board agree with the staff recommendation to write to the Committee in relation to the issue of *Core inventories*?

## *Accounting for proceeds and costs of testing on PPE*

As noted in Agenda Paper 4.2, **AASB staff disagree** with the Committee's interpretation of IAS 16 paragraph 17(e) as creating a ceiling for proceeds from testing that equal the costs of testing (issue B3 in Agenda Paper 4.2).

**AASB staff consider** that the excess of the net proceeds from testing over the costs of testing should be credited to the carrying amount of the asset. In this case, the necessary testing has in fact reduced the aggregate cost of the asset. Paragraph 17(e) states that only the testing component of directly attributable costs is measured at the costs of testing less any net proceeds. This does not preclude a negative result for that calculation, even though that is not what we would normally expect.

Furthermore, AASB staff do not consider there to be a conceptual basis for treating the excess from net proceeds over sales any differently from those below the costs of testing.

**AASB staff also disagree** with the following wording in the tentative agenda decision:

*... Consequently, the Interpretations Committee considered that the amount by which net proceeds received exceed the costs of testing would be recognised in profit and loss and not against the cost of the asset.*

**AASB staff disagree** that recognising the net proceeds of sales over the costs of testing through profit and loss is a consequence of paragraph 17(e).

**AASB staff also note** that during the July 2014 Committee meeting:

- a) the majority of Committee members noted that paragraph 17(e) of IAS 16:
  - i. could be read both ways (i.e. recognising excess of net sales proceeds over the costs of testing by crediting the asset; or through P&L); or
  - ii. could only result in crediting the asset; and
- b) the results of the Committee staff outreach indicated the predominant approach in practice was to credit the asset.

Accordingly, **AASB staff disagree** with the wording in the tentative agenda decision that suggests sufficient guidance is provided in IAS 16.

In light of the concerns noted above, **AASB staff recommend** the AASB write to the Committee in relation to their interpretation of paragraph 17(e) of IAS 16 and, in particular, noting that the excess of the net proceeds from testing over the costs of testing should be credited to the carrying amount of the asset.

### **Question for the Board**

Does the Board agree with the staff recommendation to write to the Committee in relation to the issue of *Accounting for proceeds of costs of testing on PPE*?

## IFRS Interpretations Committee staff outreach requests (2 July 2014 – 19 August 2014)

In developing responses to Committee staff, AASB staff normally consult with a number of outside parties such as accounting firms and industry bodies where appropriate. The requests received from Committee staff focus on the relevance of the issue to Australia and observations that have been made in practice, rather than seeking technical views on the issue.

Topic	Date request received	Date AASB staff responded
<b>IFRIC 21 Levies</b> <i>Outreach request querying how the debit related to a levy imposed on production assets should be recognised</i>	21 July 2014	14 August 2014
<b>IFRS 12 Disclosure of Interests in Other Entities</b> <i>Outreach request for clarification on whether the required information in paragraphs 10(a)(ii) and 12(e)–(g) of IFRS 12 with respect to subsidiaries that have non-controlling interests that are material should be disclosed for: (a) the single subsidiary that is material (ie legal entity); or (b) the subsidiary that is material together with the same information for its investees (ie a subgroup in which the subsidiary is a group of undertakings whereby the material subsidiary has joint ventures or associates of its own).</i>	8 August 2014	Not yet responded
<b>IFRS 13 Fair Value Measurement</b> <i>Outreach request for clarification under what circumstances do prices provided by third parties (especially consensus prices) qualify as Level 1 input for the fair value hierarchy in IFRS 13 Fair Value Measurement.</i>	8 August 2014	Not yet responded
<b>IAS 28 Investments in Associates and Joint Ventures</b> <i>Outreach request for clarification on what factors may indicate a fund manager has significant influence over a fund which it manages and has a direct holding in, but does not control.</i>	8 August 2014	Not yet responded
<b>IAS 32 Financial Instruments Presentation and IAS 39 Financial Instruments: Recognition and Measurement</b> <i>Outreach request for clarification of whether reclassification of a financial liability is required or prohibited when the contractual terms of the instrument have not changed.</i>	8 August 2014	Not yet responded
<b>IAS 39 Financial Instruments: Recognition and Measurement</b> <i>Outreach request in relation to the interpretation of the criterion of 'closely related' in paragraph 11 of IAS 39 Financial Instruments: Recognition and Measurement to determine whether an embedded derivative should be separated from a host contract and accounted for as a derivative in accordance with IAS 39.</i>	8 August 2014	Not yet responded