IFRIC Update

From the IFRS Interpretations Committee

November 2013

Welcome to the IFRIC Update

IFRIC Update *is the newsletter of the IFRS Interpretations Committee (the Interpretations Committee). All conclusions reported are tentative and may be changed or modified at future Interpretations Committee meetings.*

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or a Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on **12 and 13 November 2013**, when it discussed:

the current agenda:

IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions;

Interpretations Committee agenda decisions;

Interpretations Committee tentative agenda decisions;

issue considered for narrow-scope amendments;

Interpretations Committee's work in progress; and

Interpretations Committee's other work.

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Future IFRS Interpretations Committee meetings

The next meetings are:
29 and 30 January 2014
25 and 26 March 2014
13 and 14 May 2014
15 and 16 July 2014
16 and 17 September 2014
11 and 12 November 2014

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB **website** before the meeting. Further information about the activities of the IFRS Interpretations Committee can be found **here**. Instructions for submitting requests for Interpretations are given on the IASB website **here**.

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The current agenda

The Interpretations Committee discussed the following issue, which is on its current agenda.

IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions

At its previous meeting, the Interpretations 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 Interpretations Committee also tentatively agreed to reconsider whether benefits with vesting conditions should be within the agreed scope.

At this meeting, the staff presented to the Interpretations Committee an analysis relating to the agreed scope.

The Interpretations 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 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.

For the distinction between the variable and non-variable components, the majority of the Interpretations Committee members expressed concern about limiting the definition of the variable component to returns based on the actual return on plan assets held. This is because, using that approach, only a very narrow set of promises would be included in the variable component definition, leaving many economically similar promises to be accounted for under the IAS 19 defined benefit methodology. Specifically, the Interpretations Committee was concerned that the approach would not address concerns relating to the measurement of promises based on returns on notional contributions.

The staff will provide at a future meeting a further analysis of how to distinguish between the variable and non-variable components.

The Interpretations Committee will discuss at a future meeting the measurement of benefits that promise a return on a reference asset plus a specified margin.

Notwithstanding the tentative decisions above, the Interpretations 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 Interpretations Committee will discuss at a future meeting how to proceed with this project.

Interpretations Committee agenda decisions

The following explanations are published for information only and do not change existing IFRS requirements. *Interpretations Committee agenda decisions are not Interpretations. Interpretations are determined only after extensive deliberations and due process, including a formal vote, and become final only when approved by the IASB.*

IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* —Transition provisions in respect of impairment, foreign exchange and borrowing costs

The Interpretations 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 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 submitter thinks that retrospective application of these Standards could be problematic when first applying IFRS 10 and IFRS 11.

The Interpretations Committee noted that when IFRS 10 is applied for the first time, it must be applied retrospectively, except for the specific circumstances for which exemptions from retrospective application are given. It also noted that when IFRS 10 is applied retrospectively, there may be consequential accounting requirements arising from other Standards (such as IAS 21, IAS 23 and IAS 36). These requirements must also be applied retrospectively in order to measure the investee's assets, liabilities and non-controlling interests, as described in paragraph C4 of IFRS 10, or the interest in the investee, as described in paragraph C5 of IFRS 10. The Interpretations Committee observed that if retrospective application of the requirements of IFRS 10 is impracticable because it is impracticable to apply retrospectively the requirements of other Standards, then IFRS 10 (paragraphs C4A and C5A) provides exemption from retrospective application.

The Interpretations Committee noted that although the meaning of the term 'joint control' as defined in IFRS 11 is different from its meaning in IAS 31 *Interests in Joint Ventures* (2003) because of the new definition of 'control' in IFRS 10, nevertheless the outcome of assessing whether control is held 'jointly' would in most cases be the same in accordance with IFRS 11 as it was in accordance with IAS 31. As a result, the Interpretations Committee observed that, typically, the changes resulting from the initial application of IFRS 11 would be to change from proportionate consolidation to equity accounting or from equity accounting to recognising a share of assets and a share of liabilities. In those situations, IFRS 11 already provides exemption from retrospective application. The Interpretations Committee concluded that in most cases the initial application of IFRS 11 should not raise issues in respect of the application of other Standards.

On the basis of the analysis above, the Interpretations 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.

IFRS 10 *Consolidated Financial Statements*—Classification of puttable instruments that are non-controlling interests

The Interpretations Committee discussed a request for guidance on the classification, in the consolidated financial statements of a group, of puttable instruments that are issued by a subsidiary but that are not held, directly or indirectly, by the parent. The submitter asked about puttable instruments classified as equity instruments in the financial statements of the subsidiary in accordance with paragraphs 16A-16B of IAS 32 *Financial Instruments: Presentation* ('puttable instruments') that are not held, directly or indirectly, by the parent. The question asked was whether these instruments should be classified as equity or liability in the parent's consolidated financial statements.

The submitter claims that paragraph 22 of IFRS 10 *Consolidated Financial Statements* is not consistent with paragraph AG29A of IAS 32, because:

a. IFRS 10 defines non-controlling interests (NCI) as equity in a subsidiary not attributable, directly or indirectly, to a parent;
b. according to paragraph 22 of IFRS 10 a parent shall present non-controlling interests (NCI) in the consolidated statement of financial position within equity; but
c. according to paragraph AG29A of IAS 32, instruments classified as equity instruments in accordance with paragraphs 16A-16D of IAS 32 in the separate or individual financial statements of the subsidiary

that are NCI are classified as liabilities in the consolidated financial statements of the group.

The Interpretations Committee noted that paragraphs 16A-16D of IAS 32 state that puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation meet the definition of a financial liability. These instruments are classified as equity in the financial statements of the subsidiary as an exception to the definition of a financial liability if all relevant requirements are met. Paragraph AG29A clarifies that this exception applies only to the financial statements of the subsidiary and does not extend to the parent's consolidated financial statements. Consequently, these financial instruments should be classified as financial liabilities in the parent's consolidated financial statements.

The Interpretations Committee therefore 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.

IAS 19 *Employee Benefit*—Actuarial assumptions: discount rate

The Interpretations Committee discussed a request for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

a. according to paragraph 83 of IAS 19 *Employee Benefits* (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on "high quality corporate bonds" (HQCB);
b. IAS 19 does not specify which corporate bonds qualify to be HQCB;
c. according to prevailing past practice, listed corporate bonds have usually been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (eg 'AAA' and 'AA'); and
d. because of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased in proportions that the submitter considers significant.

In the light of the points above, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB.

The Interpretations Committee observed that IAS 19 does not specify how to determine the market yields on HQCB, and in particular what grade of bonds should be designated as high quality. The Interpretations Committee considers that an entity should take into account the guidance in paragraphs 84 and 85 of IAS 19 (2011) in determining what corporate bonds can be considered to be HQCB. Paragraphs 84 and 85 of IAS 19 (2011) state that the discount rate:

a. reflects the time value of money but not the actuarial or investment risk;
b. does not reflect the entity-specific credit risk;
c. does not reflect the risk that future experience may differ from actuarial assumptions; and
d. reflects the currency and the estimated timing of benefit payments.

The Interpretations Committee further noted that 'high quality' as used in paragraph 83 of IAS 19 reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds, which would be the case, for example, if the paragraph used the term 'the highest quality'. Consequently, the Interpretations Committee observed that the concept of high quality should not change over time. Accordingly, a reduction in the number of HQCB should not result in a change to the concept of high quality. The Interpretations Committee does not expect that an entity's methods and techniques used for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Paragraphs 83 and 86 of IAS 19, respectively, contain requirements if the market in HQCB is no longer deep or if the market remains deep overall, but there is an insufficient number of HQCB beyond a certain maturity.

The Interpretations Committee also noted that:

a. paragraphs 144 and 145 of IAS 19 (2011) require an entity to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation and a sensitivity analysis for each significant actuarial assumption;
b. the discount rate is typically a significant actuarial assumption; and
c. an entity shall disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements in accordance with paragraph 122 of IAS 1 *Presentation of Financial Statements*;

typically the identification of the HQCB population used as a basis to determine the discount rate requires the use of judgement, which may often have a significant effect on the entity's financial statements.

The Interpretations Committee discussed this issue in several meetings and noted that issuing additional guidance on, or changing the requirements for, the determination of the discount rate would be too broad for it to address in an efficient manner. The Interpretations Committee therefore recommends that this issue should be addressed in the IASB's research project on discount rates. Consequently, the Interpretations Committee decided not to add this issue to its agenda.

Interpretations Committee tentative agenda decisions

*The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Interpretations Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in March 2014. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 20 January 2014 to **ifric@ifrs.org**. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

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 Interpretations 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 submitter refers to the fact that the final retail price could be different from the institutional price because of:

a. an unintentional difference arising from the book-building process; or

b. an intentional difference arising from a discount given to retail investors by the issuer of the equity instruments as indicated in the prospectus.

The submitter asked the Interpretations Committee to clarify whether the transaction should be analysed within the scope of IFRS 2 *Share-based Payment*.

The Interpretations Committee considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group, and therefore whether it is a share-based payment transaction within the scope of IFRS 2. Paragraph 13A of IFRS 2 requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The Interpretations Committee noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.

In the circumstances underlying the submission, the Interpretations Committee concluded that no unidentified goods or services have been (or will be) received. This is because the price agreed between each shareholder group reflected only a transaction to raise funds and the retail shareholder group did not provide any goods or services, only the cash consideration to acquire the shares.

The Interpretations Committee also noted that the entity has issued shares in two different markets (the institutional market and the retail market). It was unclear from the submission which price (the retail price or the institutional price) represents the fair value of a share in accordance with IFRS 13 *Fair Value Measurement*. However, IFRS 13 paragraph B4(d) states that a transaction price may differ from fair value if the transaction takes place in a market other than the principal market (or most advantageous market). The Interpretations Committee concluded that the difference, if any, between the retail price and the fair value of a share in the fact pattern considered appeared to relate to the existence of different markets rather than the receipt of additional goods or services. Consequently, the Interpretations Committee observed that the guidance in IFRS 2 is not applicable because there is no share-based payment transaction.

The Interpretations Committee noted that this situation is different to the issue on which it had issued an agenda decision in March 2013. In that agenda decision ("Accounting for reverse acquisitions that do not

constitute a business") the Interpretations Committee had concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer. The Interpretations Committee observed that in that fact pattern, the service received from the other entity was a stock exchange listing for its shares, whereas in the fact pattern considered in this submission the stock exchange listing was not received in exchange for, or conditional on, the issue of the shares for less than fair value.

The Interpretations Committee noted that the equity instruments issued by the entity to the investors should be recognised in equity in accordance with paragraph 33 of IAS 32 *Financial Instruments: Presentation* and be measured at the fair value of the consideration received.

On the basis of the analysis above, the Interpretations 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 Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 10 *Consolidated Financial Statements: Investment Entities Amendments*—Definition of investment-related services or activities.

The Interpretations 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 Interpretations Committee noted that, according to BC272 of IFRS 10, the IASB thinks that fair value measurement of all of an investment entity's subsidiaries would provide the most useful information, except for subsidiaries providing investment-related services or activities. In addition, the Interpretations Committee noted that the IASB had considered requiring an investment entity to consolidate investment entity subsidiaries that are formed for tax purposes, but had decided against this.

The Interpretations Committee noted that one of the characteristics of 'tax optimisation' subsidiaries described in the submission is "that there is no activity within the subsidiary." Accordingly, the Interpretations Committee considers that the parent should not consolidate such subsidiaries, because they do not provide investment-related services or activities, and do not meet the requirements to be consolidated in accordance with paragraph 32 of IFRS 10. The Interpretations Committee also noted that Example 4 of the Illustrative Examples of IFRS 10 illustrates the application of the relevant requirements. The parent should therefore account for such an intermediate subsidiary at fair value.

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 [decided] not to add the issue to its agenda.

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 Interpretations 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 Interpretations Committee noted that the principal guidance on distinguishing a change in accounting policy from a change in accounting estimate is set out paragraphs 5 and 35 of IAS 8. It also noted that other IFRSs provide additional guidance that can be helpful in making the distinction. For example, paragraph 66 of IFRS 13 states that revisions resulting from a change in the valuation technique (for example, from market approach to income approach) or its application shall be accounted for as a change in an accounting estimate.

The Interpretations Committee acknowledged that distinguishing between a change in accounting policy and a change in accounting estimate can require judgement and may be challenging. However, it observed that paragraph 35 of IAS 8 states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. Consequently, the Interpretations Committee expected that an entity would follow this guidance in circumstances in which it is unclear whether a change is a change in accounting policy or a change in accounting estimate, although the Interpretations Committee adds that sufficient analysis should be made before reaching the conclusion.

The Interpretations Committee noted that a change in accounting estimate may encompass a change in method used to develop an estimate, as well as a change in inputs to the method, both of which result in a change in the amount of the estimate. Regardless of the type of change, the Interpretations Committee thinks that a change in a method of estimation should only be made if that change produces reliable and more relevant information. The Interpretations Committee noted that paragraph 39 of IAS 8 requires disclosure of the nature and amount of a change in accounting estimate, and that such disclosure would include information about a change in the method applied. The Interpretations Committee observed that information about the change in method would need to be disclosed in accordance with paragraph 39 of IAS 8 or, in case of a change in valuation technique, in accordance with paragraph 93(d) of IFRS 13.

The Interpretations 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 Interpretations 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 Interpretations Committee [decided] not to add this issue to its agenda.

IAS 17 *Leases*—Meaning of 'incremental costs'

The Interpretations 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 submitter asks whether the salary costs of permanent staff involved in negotiating and arranging new leases (and loans) qualify as 'incremental costs' within the context of IAS 17 and should therefore be included as initial direct costs in the initial measurement of a finance lease receivable.

The Interpretations Committee noted that internal fixed costs do not qualify as 'incremental costs'. Only costs that would not have been incurred if the entity had not negotiated and arranged a lease should be included in the initial measurement of a finance lease receivable. The Interpretations Committee also noted that there does not appear to be diversity in practice on this issue.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an Interpretation nor an amendment to IFRSs was necessary and consequently [decided] not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement*—Accounting for term-structured repo transaction

The Interpretations Committee received a request to clarify: ('Issue 1') whether an entity (Entity A) 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* ('IG B.6 of IAS 39') in addressing Issue 1. Some key features of the three transactions are as follows:

a. Transaction 1 (bond purchase): Entity A purchases a bond ('the bond') from another entity (Entity B).
b. Transaction 2 (interest rate swap): Entity A enters into interest rate swap contract(s) with Entity B. Entity A pays a fixed rate of interest equal to the fixed coupon rate of the purchased bond in Transaction 1 and receives a variable rate of interest.
c. Transaction 3 (repurchase agreement): Entity A enters into a repurchase agreement with Entity B, in which Entity A sells the same bond in Transaction 1 on the same day it purchases the bond and agrees to buy back the bond at the maturity date of the bond.

The Interpretations Committee noted that the fact pattern provided in the request does not provide enough context or detail to assess whether the three transactions should be accounted for separately or aggregated, in part because the business purpose for the transactions was unclear. In addition, the Interpretations Committee noted that providing guidance on the accounting for a specific transaction would not be appropriate.

The Interpretations Committee noted that in order to determine whether Entity A should aggregate and account for the three transactions above as a single derivative, reference may be made to paragraphs B.6 and C.6 of Guidance on Implementing IAS 39 and paragraph AG39 of IAS 32 *Financial Instruments: Presentation*.

The Interpretations Committee also discussed Issue 2, ie how to apply paragraph IG B.6 of IAS 39 in addressing Issue 1. The Interpretations Committee noted that application of the guidance in paragraph IG B.6 of IAS 39 requires judgement. It also noted that the indicators in IG B.6 of IAS 39 may help an entity to determine the substance of the transaction, but that the presence or absence of any single specific indicator alone may not be conclusive.

The Interpretations 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.

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

In May 2013, the IASB issued IFRIC 21 *Levies*, which is effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21.

The Interpretations Committee received a request to clarify how the requirements in paragraph 8 of IFRIC 21 should be interpreted in identifying an obligating event for a levy. The Interpretations 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.

The Interpretations Committee noted that in the circumstance described above, the payment of the levy is triggered by the reaching of the annual threshold as identified by the legislation. The Interpretations Committee also noted that the entity would be subject to a threshold that is lower than the threshold that applies at the end of the annual assessment period if, and only if, the entity stops the relevant activity before the end of the annual assessment period. Accordingly, the Interpretations Committee observed that in the light of the guidance in paragraph 12 of IFRIC 21, the obligating event for the levy is the reaching of the threshold that applies at the end of the assessment period. The Interpretations Committee noted that there is a distinction between a levy with an annual threshold that is reduced pro rata when a specified condition is met and a levy for which an obligating event occurs progressively over a period of time as described in paragraph 11 of IFRIC 21; until the specified condition is met, the pro rata reduction in the threshold does not apply.

On the basis of the discussions above, the Interpretations Committee thought that the guidance in IFRIC 21 and IAS 37 is sufficient and noted that it is unlikely that significant diversity in interpretation on this issue will emerge. Accordingly, the Interpretations Committee [decided] not to add this issue to its agenda.

Issue considered for narrow-scope amendments

IFRS 2 *Share-based Payment*—Measurement of cash-settled share-based payment transactions that include a performance condition

The Interpretations 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.

The Interpretations Committee discussed this issue in the September 2013 meeting. At that meeting it tentatively agreed that:

a. IFRS 2 does not specifically address the impact of vesting conditions (including the effect of a performance condition) within the context of cash-settled share-based payment transactions; and
b. 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.

At its November 2013 meeting, the Interpretations Committee discussed proposed amendments to IFRS 2.

The Interpretations Committee recommended that the IASB should amend IFRS 2 to make clear that:

a. the effect of a market condition or a non-vesting condition shall be reflected in estimating the fair value of the cash-settled share-based payments both at the grant date and subsequently;
b. vesting conditions (other than market conditions) shall not be taken into account when estimating the fair value of cash-settled share-based payments. Instead, vesting conditions (other than market conditions) shall be taken into account in the measurement of the liability incurred by adjusting the number of awards that are expected to vest. Such an estimate shall be revised when the liability is remeasured at each reporting date and until the vesting date; and
c. on a cumulative basis, no amount is recognised for goods or services received if the awards granted do not vest because of failure to satisfy a vesting condition or a non-vesting condition.

The Interpretations Committee also recommended that the IASB should amend the Implementation Guidance of IFRS 2 and add an example to illustrate the impact of a performance condition on the measurement of a cash-settled share-based payment.

Although the Interpretations 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.

Interpretations Committee's work in progress

IFRS 10 *Consolidated Financial Statements: Investment Entities Amendments*—Investment entity subsidiary that provides investment-related services

The Interpretations 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.

According to the submitter, in the case in which an investment entity subsidiary meets the definition of an investment entity (which 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.

At this meeting, the Interpretations Committee noted that an investment entity could provide investment-related services through various structures. The Interpretations Committee was concerned that the accounting for investment-related services should reflect the substance of the arrangements and should not be unduly affected by the structure of the group. The Interpretations Committee observed that IFRS 10 was clear that:

a. an investment entity parent should account for a subsidiary that is also an investment entity at fair value if that subsidiary does not provide investment-related services; and

b. an investment entity parent should consolidate on a line-by-line basis a subsidiary that is not an investment entity, but that provides investment-related services, because such services are an extension of the operations of the investment entity parent.

However, the Interpretations 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 Interpretations Committee decided to add this issue to its agenda. The staff will present wording for the proposed amendment at a future meeting. The Interpretations 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.

IFRS 10 *Consolidated Financial Statements: Investment Entities Amendments*—Interaction between the investment entity amendments and the exemption from preparing consolidated financial statements in IFRS 10

The Interpretations 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 Interpretations Committee is whether an intermediate parent (that is not 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.

IFRS 10 *Consolidated Financial Statements* (2012) requires a parent entity to present consolidated financial statements. However, paragraph 4 of IFRS 10 provides an exemption that a parent need not present consolidated financial statements if the entity meets the criteria in paragraph 4(a) of IFRS 10. One of the criteria is "its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs".

The Interpretations Committee observed that an intermediate parent that does not provide investment-related services is included in its investment entity parent's financial statements at fair value, and not through a line-by-line consolidation. The Interpretations Committee questioned whether it was appropriate for such an intermediate parent to qualify for the exemption from the requirement to prepare consolidated financial statements if the intermediate parent was not, itself, an investment entity.

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 Interpretations Committee will discuss this matter at a future meeting.

IFRS 11 *Joint Arrangements*—Summary of outreach on implementation issues

The Interpretations 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 summary of the result of the outreach included (1) views from respondents on the several issues identified in the outreach request and (2) additional issues raised through the feedback from the outreach request.

The Interpretations 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 Interpretations 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.

IAS 12 *Income Taxes*—Recognition and measurement of deferred tax assets when an entity is loss-making

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:

a. whether IAS 12 *Income Taxes* 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; 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 Interpretations 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 Interpretations 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 Interpretations 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 Interpretations Committee meeting.

Interpretations Committee's other work

Accounting for Interests in Joint Operations structured through Separate Vehicles

The Interpretations 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 Interpretations Committee noted that:

a. the issue is prevalent in practice because separate IFRS-financial statements are common in many jurisdictions, and, in addition, joint arrangements structured through separate vehicles are more often classified as joint operations in practice than was originally expected;
b. it is clear and consistent that IFRS 11 requires the same accounting for joint operations in the consolidated IFRS-financial statements and the separate IFRS-financial statements because it requires the joint operator to account for all of its rights and obligations;
c. in order to be classified as a joint operation, the parties to the joint arrangement must have sufficient rights to and obligations for the assets and liabilities held in the entity such that these rights and obligations pierce the veil of incorporation. In this case, IFRS 11 requires that the joint operator does not account for its shareholding in the entity that houses the joint operation at cost in accordance with IAS 27 *Separate Financial Statements* or at fair value in accordance with IFRS 9 *Financial Instruments*. Instead, the joint operator accounts for its rights and obligations, which are its shares in the assets held by the entity and its shares in the liabilities incurred by it; and
d. the classification of a joint arrangement as a joint operation depends on the rights and obligations that the parties have. Consequently, the assessment of those rights and obligations is critical to making this classification.

The staff will present the results from the Interpretations Committee's discussion at a future IASB meeting.

Interpretations Committee work in progress update

The Interpretations Committee received a report on four new issues and five ongoing issues for consideration at future meetings. The report also included two issues that are on hold, and that will be considered again at future meetings. With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

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endorsement of any of the information provided. The information published in this newsletter originates from various sources and is accurate to the best of our knowledge.

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